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Oral History Program

Transcript of interview with

J. BURKE KNAPP

Date: October 16 and 29, 1981

By: Robert E. Asher
WORLD BANK ORAL HISTORY PROGRAM

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Mr. J. Burke Knapp
Former Senior Vice President, World Bank

Mr. Robert E. Asher
Interviewer

Date of Interview
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Archives Program
Records Management Division
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Washington, D.C.
1981
J. BURKE KNAPP  
Senior Vice President, Operations

J. Burke Knapp became Senior Vice President, Operations, of the International Bank for Reconstruction and Development (WORLD BANK) and the Bank's affiliate, the International Development Association (IDA), on October 1, 1972. He was born in Portland, Oregon, in 1913. He is a graduate of Stanford University and of Oxford University, where he was a Rhodes Scholar. He stayed in England with the international investment firm of Brown Harriman and Company, Ltd., from 1936 to 1940, then spent the next four years as an economist on the staff of the Federal Reserve Board in Washington. After a year as economic adviser to the American Military Government in Germany, he returned to the Federal Reserve Board, serving from 1945 to 1948 as special assistant on international matters to the Chairman of the Board.

Mr. Knapp was appointed to the Department of State as Director of its Office of Financial and Development Policy in 1948, and in 1949 became Assistant Economic Director of the World Bank. The Bank gave him leave in the following year to serve in London as the Economic Adviser to the United States delegation in the North Atlantic Treaty Organization, and in 1951 again gave him leave to serve in Rio de Janeiro as the U.S. chairman of the Joint Brazil-United States Economic Development Commission. After returning to the World Bank in 1952, Mr. Knapp served as Director of the Bank's operations in Latin America until 1956, when he was named Vice President and Chairman of the Loan Committee of the Bank.

January 1973
Mr. J. Burke Knapp

Born: January 25, 1913 in Portland, Oregon, U.S.A.

Education: 
1929 - 1933 Stanford University, California
AB in Economics (1933)

1933 - 1936 Oxford University, England (Rhodes Scholar)
BA in Politics, Philosophy and Economics (1935)
B.Litt. (1936) MA (1939)

Experience:

2/40 - 6/44 Assistant Chief, International Section, Board of Governors of the Federal Reserve System, Washington, D.C.

7/44 - 10/45 Adviser on German Economic Affairs, Department of State, Washington, D.C. and U.S. Military Government in Germany.

10/45 - 5/48 Director of International Division, Board of Governors of the Federal Reserve System, Washington, D.C.

5/48 - 12/49 Director, Office of Financial and Development Policy, Department of State, Washington, D.C.

12/49 - 10/50 Assistant Director, Economic Department, World Bank.


9/52 - 7/56 Director, Department of Operations for the Western Hemisphere, World Bank.

7/56 - 10/72 Vice President, Operations, and Chairman of the Loan Committee for the World Bank and IDA.

10/72 - 6/78 Senior Vice President, Operations, and Chairman of the Loan Committee for the World Bank and IDA.

7/78 - present Consultant

Washington, D.C.
March 16, 1979
WORLD BANK ORAL HISTORY

Program Proposal Project

Interviewee: Mr. J. Burke Knapp,
former Senior Vice President, Operations - World Bank

Interviewer: Mr. Robert E. Asher, Consultant

Dates and Place of Interview: October 16 and 29, 1981
World Bank Headquarters
Washington, D.C.

Asher: My name is Robert Asher. With me today, October 16, 1981, is
Mr. J. Burke Knapp. Burke, you came to the Bank in 1950 and for more
than three decades you had an unparalleled opportunity to participate
in, to observe, maybe to reflect upon, almost every aspect of the Bank's
work. You've been Vice President and Senior Vice President for Operations
for longer than anyone else in the history of the Bank, Vice President
since 1956, Senior Vice President for Operations since 1972 and, since
your retirement which was, I think, at the end of 1978, you've been
a consultant to top management. The Bank, today, is surely a very
different institution than the one to which you came in 1950. How
would you describe the transformation and to what would you attribute
the principal changes?
Knapp: Well, I'd like to discourse a bit on that subject and to distinguish three phases that I've observed in the Bank's evolution from being a bank or a financial institution, which it was in its beginnings, toward becoming a development institution, far surpassing, and having many dimensions exceeding that of a normal financial institution. I think it's remarkable that this evolution has taken place without any significant changes in the Charter which was written at the time of the Bretton Woods Agreement in 1944, with primarily, a bank—a financial institution—in mind; and yet the Charter has proved flexible enough to encompass the major changes which have taken place in the character of the institution.

I distinguish these three phases as, more or less, the '50s, when the Bank was a fairly conventional financial institution, directing its attention toward primarily the financing of major concrete projects in the developing countries; then the period of the '60s, when its range of activities greatly expanded—I call this the "economic" phase of the Bank's work, in which there came to be a much more sophisticated approach to the problems of country creditworthiness and economic aspects and the basic economic benefits to be derived from development projects; and finally the '70s, the stage at which, again, a new dimension was added—the social dimension and concern with the effects of development upon the distribution of income, and concern about what the Bank, now viewed as a development institution, might do directly and indirectly to attack the basic problems of poverty.

Now, in the first stage when we were "merely" a bank, there was a great deal of emphasis upon the formulation of individual
projects and even the formulation of self-liquidating projects. When one talked about the security of loans there was a good deal of emphasis upon the actual financial returns from the project, although, even in those days, there were projects--highways, for example--which were not income-earning and didn't generate revenues directly to service the loan (but even then, one paid a lot of attention to the yield of the project in terms of user taxes and revenues that the government might derive from the project to help it service the loan obligations). It was, of course recognized that, beyond the project credit, so to speak, lay the country credit and that the country credit was fundamental since it was the country that was going to provide the foreign exchange required to service the foreign exchange loan. But the so-called "project approach" was very heavily emphasized and the Bank tended to concentrate on major infrastructure elements such as the field of transportation, electric power, and agricultural public works such as irrigation and land reclamation. I should say that this conformed, also, to the wishes of the developing country borrowers at that time because most of them were very short of infrastructure, and the provision of these basic public services, the sort of sinews of economic development, were in many countries what was urgently needed. Beyond that, it was these large public works which confronted governments with very large, lumpy requirements for capital, and they naturally tended to come to the Bank when they confronted a big problem of mobilizing capital commitments to support a major infrastructure project.

Then, as we moved into the 1960s, the economists in the
Bank and economic thinking came, as I look back upon it, to become much more emphasized and much more important. We came into the era of feeling that these major projects--these infrastructure projects--were not an end in themselves, but simply a means toward promotion of development and toward the promotion of the economically productive sectors of the economy--agriculture, industry, commerce--whatever it was that provided the productive capacity of the nation, and provided the tax base from which the government could raise revenues for further development. We came to the stage of thinking of our individual country borrowers as pieces of the world economy, and giving much more attention than, perhaps, had been given before, to their place in the world economy--their place within the division of labor in international trade. Much more analysis was given to their export potential and to the provision of a development plan--an integrated development program--which would exploit this country's opportunities and advantages in international trade. This led to a much more rounded view of project financing and project benefits, in which projects were appraised, not so much in terms of their financial impact, but in terms of their broad contribution to the national economy--again, viewed within the framework of the world economy. So project selection, project benefits, creditworthiness--all came to have a much greater economic content than they had had before.

All this led to and intensified the so-called economic dialogue which the Bank had with its member countries. We weren't appraising country economies from an ivory tower. We were trying to come to grips with realities and one of the most effective ways to
do that was to engage in a full-scale and intimate discussion with the authorities of the government concerned regarding their economic program, regarding the policies that they were seeking to install to support economic development, and the Bank's role as an economic adviser to member countries came to be emphasized much more. I think in the early days it could be said that borrowers looked to the Bank simply for capital for major projects, and many of the more sophisticated developing countries, at least, were rather resistant to entering into a discussion with the Bank about their economic and financial policies or even their broad economic development plans. They felt that this was none of the business of a bank which was simply looked upon as a source of finance for projects. The concept of an economic partnership, or the concept of bringing the Bank aboard with them as economic adviser and counselor, took a lot of persuasion and even, from the Bank's side, some insistence. We came to feel that, as the banker to a country, we ought to evolve into the role also of a development adviser, especially in the light of the concept that the creditworthiness of the country depended upon the broadest analysis of its economic plans and economic potential. Obviously, our relationships differed with different countries--some came more readily into this, what I call, economic partnership--others, perhaps, had to be dragged along. But in the end, I think by the end of the '60s, it became commonplace in the Bank to say that the role of economic adviser and counselor was a more significant role in terms of its actual impact upon the real world than the financing of the projects themselves and, increasingly, we came to use the phrase that financing a project itself was a means to an end; it was a means to an
end also in the sense of achieving a broad partnership in economic planning. There were other agencies who offered that kind of advice and counsel but they didn't have the money to back up their ideas and advice; that's where the World Bank, as a financial institution, held a great advantage over other types of institutions in providing development advice. It could marry up its advice with financing and this gave it a leverage, if you like, an entree into relationships with countries that was denied to other institutions equally anxious and, perhaps, equally competent to provide advice but lacking the resources to follow up.

Then we come into the period of the 1970s and comes this further expansion of the whole concept of the Bank into a new dimension which I've described as the "social" dimension: the concern that the fruits of development were not being as widespread within the borrowing countries as was desirable; that poverty remained, in many countries, rooted in the soil of the country, almost unaffected by a generation of so-called "development" efforts; real questioning of the end purposes of development and a feeling that not only more equitable distribution of the fruits of development was important and desirable from, if you like, a humanitarian and moral point of view, but also that development itself was a failure unless it was rounded development in which all classes of the society participated. This was associated with the feeling that there were great latent productive capacities in most developing countries among the poorest segments of the community and that, even in a very hard-headed appraisal of the economic returns to be achieved from projects, that the economic returns from projects
directed toward the mobilization of the talents and energies of the sub-
merged segments of the population could be very high.

There was, I think, some feeling on the outside at the time
that the Bank's new emphasis on poverty and on basic needs meant that
it was turning from an investment institution into a welfare insti-
tution. We always rejected that interpretation and argued that even
from an investment point of view the rates of return from poverty-oriented
projects could be very rewarding. Indeed, our experience in that re-
spect confirmed that thesis.

That's quite aside from another point, namely that in each
stage of our evolution, whereas we were enabling our borrowing countries
to carry out more effective development programs, we were also protecting
the credit position of the Bank. The Bank, as a creditor, had an
interest, obviously, in seeing the economies of its borrowers thrive,
in order that they could more effectively service their debts, and this
created a real identity of interest between the Bank on the one side and
the borrowing country on the other. What strengthened the borrowing
country, strengthened its economy and its capacity to serve its people
and to increase the standard of living of the nation, equally acted to
sustain and build up its creditworthiness. In the second "economic"
stage, with all its emphasis upon national economies and national
country creditworthiness, the orientation of projects towards sustaining
maximum economic growth in countries was obviously helping to build
up their creditworthiness. And in this final "social" stage, we didn't
find much conflict between building up economic productivity on the one
hand, and achieving a more effective distribution of income, on the other. At the margin, perhaps, in the choice of projects you might find some slight conflicts but, basically, we felt that helping the poor was also helping the country build up its productive capacity—at least helping the poor in the form of formulating projects in which, as I said, the energies and talents of additional people were mobilized for development. And we mustn't forget that this final "social" phase that I'm speaking of was also considered important in assuring the political and social stability of the borrowing countries. Whatever might have been the success of individual projects in building up the economy of the country, if at the same time we had the advent of social and political instability, because of great disparities in income and because of the jealousies and frictions brought about by the failure of development to meet the needs of the submerged elements in the society, then that too could undermine the creditworthiness of the country. I always felt that one of the strongest arguments for the Bank's insisting with many countries that they devote more attention to basic needs was simply that, if they didn't, the creditworthiness of the country was threatened and the basic interests of the Bank as a creditor institution were endangered.

Now, this evolution that I've described, even though it proceeded under a charter which in no way foresaw the problems of, say, the 1970s, seems to me to have had a certain organic, even inevitable quality about it. This may be just in retrospect, it being hard to imagine things having turned out much differently, but I think each stage of evolution established patterns which grew, sometimes almost
indistinguishably, into the new patterns and the new dimensions of the next phase. I know there might be some who would attribute this evolution entirely to the personalities of the leadership. Indeed, one could say that the initial leadership—Jack McCloy, Gene Black, Bob Garner—were a group of conservatively-minded and orthodox bankers (lawyers, in the case of McCloy) who brought with them to the Bank certain preconceived and fairly conservative patterns of financing methods in the United States and who did much to establish the identity of the Bank. On the other hand, moving into the McNamara years, it could be said that it was McNamara with his crusading zeal and his rich imagination of how to transform the Bank more into the direction of a development institution, that it was the force of his personality that carried the Bank's evolution in that direction. Well, one could argue that but I think that should be strongly qualified. I think this evolution was a natural one, almost an inevitable one, and that it was a case rather of the institution needing to go in certain directions and finding the leadership for it. In any case, although my view of history is generally heavily influenced by the force of personalities and the effects of personalities on history, in this instance I would just warn against too easy an interpretation. If the leadership hadn't fitted the needs of the times, it wouldn't have been chosen or it wouldn't have been retained.

Asher: Well, that's a pretty interesting and comprehensive history in relatively few minutes. First, a kind of semantic question, Burke, but I hope it isn't only that. It is true that at Bretton Woods the Bank was thought of as a bank or a financial institution, but ever since the late 1940s when it ceased financing reconstruction in Western Europe in favor of the Marshall Plan and turned its attention to Latin
America, its leaders have sort of thought of it as a development institution with loans as necessary to understand the whole investment pattern, the economic goals, and so on and to pick from the array of possible projects--good projects that they could finance--the best projects and those that would help development most. And the word, "Development" was included in the title of the Bank back in 1944. So, is it arguable that what has been transformed during the last thirty years is not so much the role--the function of the Bank, but its judgment concerning the way it should carry out that function and what was involved in promoting development which, initially, seemed to involve a fairly conservative and narrow view of the areas in which financing and dialogue would advance development and then gradual broadening of that. Is this just a semantic business or is there something to it?

Knapp: Well, no, I think that there's a lot to that. I mean, one way of putting it, perhaps, would be to say that it was appreciation of the inadequacy of the Bank's efforts that led to expanding the horizons of the Bank's activity. It was realization that just building infrastructure was not enough—that one had to build upon the productive economies which were to utilize that infrastructure; or it was the feeling that maximizing production was also not enough—that a more effective and a more equitable distribution of income, and especially the income generated by that development, was important and necessary. So you could say, perhaps, that the role was established from the outset but that it was a gradual process of education and understanding—both by the Bank and by its borrowing countries because everything the Bank
does it has to do jointly with its borrowers—a realization that broader and broader horizons had to be established to discharge the mission of the Bank conceived by the founders. But I'd say that still means that the character of the institution evolved in a fairly straight line from an orthodox financial institution or bank toward what I think it is accepted as today, as a major—the major development institution in the world.

Asher: I'll buy that. Can I press you a little bit more on this role of leadership in the evolution that you've described. The Bank has always been described as having strong presidents. I can hardly imagine presidents as different in their personalities and styles as Eugene Black, George Woods, Robert McNamara and Tom Clausen—all of them strong presidents. I've heard the Bank described as a kind of authoritarian institution that does what its presidents want it to do. This is obviously simplistic because nobody knows better than you do that the Bank has to cope with strong members, with Executive Directors who have ideas and can put them forward or can resist the President's ideas. But still the Bank surely would have been a very different institution if Black's and McNamara's terms of office had been reversed or if George Woods had been President for ten years instead of five. How—to what extent, as you look back, even if it wasn't the major determinant, have the styles and goals and idiosyncracies and zeal of the Bank's presidents affected at least the timing and so on of the evolution that you sketched out. I mean, it does make a difference in the actual operation and evolution of the institution, I would think, who's president.
Knapp: Well, yes, of course. I don't want to be misunderstood as saying that the personalities of presidents had no influence on events, but I still feel that the evolution that took place was a natural and organic one and not one that was, so to speak, artificially imposed by leadership. The president of the Bank, though leader, is subject to tremendous influences that are brought to bear upon him by his principal stockholders, by his borrowing countries and by his staff and I think the presidents of the Bank have moved with the times. Let's consider Black for a moment. I think Black moved with the times during the tenure of thirteen or fourteen years that he was the leader of the Bank. The Bank had already changed considerably by the end of his tenure of leadership in the direction of a far broader based and more development-oriented institution than it had been at the beginning, or even at the beginning of Black's presidency. George Woods, in retrospect, it seems to me, did not have any very great influence on the evolution of the Bank in the sense that I've been describing it. He carried on, if you like, in the Black tradition. He was not a great innovator and the period, in any case, of his presidency was fairly short. McNamara, of course, in the first place he came to the Bank without a banking background. He was already clearly in a different pattern from his predecessors, and while I don't know how he would describe his own evolution as the President of the Bank, I think that he, too, was molded by events and molded by the thinking that was generating in the Bank staff and in the member countries. With all the innovativeness and creativeness with which I think he should be credited, I don't think he alone revised the whole theory of development.
Asher: One might get that idea from reading William Clark in the latest issue of *Foreign Affairs*. He credits McNamara with inventing the word—coining the phrase "absolute poverty", turning the Bank around in its lending, and so on.

Knapp: Well, I think McNamara had a tremendous impact. Perhaps his greatest impact was in building the size of the institution, and his fearless confrontation of the need for development finance in the developing countries and his fearless crusade with the countries that provide the financial support to the institution, both to the Bank itself and to IDA, for the resources necessary to do the job. I must say that in terms of bold financial planning and bold confrontation of the needs, McNamara was unique, and other more conservatively-minded or more conventionally-minded types who might have taken up the presidency of the Bank at the time that he did, would not have seen the needs, or if they had, would not have been bold enough to lay claim upon resources of the magnitude that McNamara did. But in terms of the evolution of the character of the institution, again I say, it seems to me, there was an inevitability about that which would have prevailed if George Woods had been succeeded by somebody of a more conventional pattern. In the latter case he, too, might have lasted just five years; he wouldn't have lasted thirteen as McNamara did.

Asher: Right. Well, you described the broadening of the Bank's interests and, by implication, the great expansion in the amount of financial resources it was able to make available for development—a kind of onward and upward course from the Year One to the present. Are we reaching the end of a trend line? This is a crystal-ball kind of question
but there are many signs on the horizon that the expansion that has characterized the Bank in the past isn't going to be easy to continue in the future. Yet the Bank is the kind of institution that, to be a development agency, almost has to increase its net transfers to developing countries in order that the repayments (amortization and interest) won't exceed the outflow from the Bank, in which case it would cease to be a development stimulator. How do you view the future?

Knapp: Well, as you say, it's a crystal-ball question and there are certainly signs that these trend-lines, both in the evolution of the character of the institution and in the evolution of the size of its operations, are not likely to continue trending in the same direction that they have. It's even possible that there will be some reversal, of course, in an evolutionary and not in a revolutionary way. With respect to the character of the institution, let me say first that it's certainly too early to see what will be the impact upon the institution of the new US administration—the Reagan administration—and the undoubtedly substantial changes of emphasis that have been expressed on that side.

Asher: As recently as yesterday by President Reagan.

Knapp: Right! And it's too early to assess the new Bank President, who, first of all, has his own personality and ideas, not necessarily identical with those of the Reagan administration, but who will also be brought under very heavy pressure from the US as the Bank's major
stockholder. It's just too early to see how these trends may develop but it would be unrealistic to expect that the Bank would continue the trend toward, let's say an even more social orientation; or that it would continue, at least in real terms, the previous rate of expansion in the size of its operations. The trend-lines both in what you might call the social content of the Bank's program and activities, and in the size of its operations in real terms, might both decline somewhat over the next few years, without trying to take a longer view of what might happen over the next decades.

Asher: Well, certainly the latter—a decline in the wherewithal to finance development would, I think, be very sad. I'd like to return to the social orientation later but I guess I ought to ask you a prior question about the organization of the institution because from that we may get a clearer notion of some of the specific activities in which you've been involved. You became Director of the Western Hemisphere Department in the 1952 reorganization—a major one for its time and the 1972 organization through which you became Senior Vice President for Operations was described in the Bank's house organ as an explosion that "registered 8 on the Richter scale." What have been the factors leading to, and the consequences of organizations and reorganizations on decision-making, on policy evolution, on efficiency, on morale and whatever you want to describe as "effects"?

Knapp: Well, essentially, the 1952 reorganization was the one in which the Bank was organized for the first time on regional lines with the
creation of the Regional Departments, and I became the first Director of the Regional Department for Latin America. Prior to that time there had been a Loan Department and an Economics Department without clear regional lines being drawn or responsibilities being assigned. The real guts of that reorganization was to combine the economic work and the lending operations under one management on a regional basis, and the regional offices were endowed at that time with a staff of so-called loan officers and a staff of economists.

Asher: But not the technicians?

Knapp: No, but not the projects people. The Projects Department was retained as a separate organization to process projects. First of all the Bank had not achieved a critical mass, so to speak—the projects work had not achieved such a magnitude that it could be divided up regionally. There was not a critical mass in each of the regions to justify establishment of a projects department there, and it was very difficult, for that reason alone, to chop up the Projects Department into regional segments and to incorporate them in the regional departments. But there was also a clear feeling that, at least at that stage of the Bank's operations, it was useful to retain a central projects department with the responsibility of vetting and establishing the merits of projects, as a precaution against the danger that the lending departments—the regional departments—would run away with the ball and carry out lending operations which were not fully justified on a project basis. In other words, there was a sort of checks and balances system under which the regional offices who had the responsibility of designing and conducting lending negotiations would
be subject to the review of an independent, autonomous and very responsible projects department.

Asher: Can I interrupt? Did you need that check of the independent projects review? Would Western Hemisphere lending have zoomed without it?

Knapp: No, I don't think so.

Asher: You needed the check of the project analysis.

Knapp: Yes. But whether that should have been combined into the Regional Office, as it was subsequently, or retained as an independent autonomous department, one could argue that.

Asher: Because it did give rise to some tension, didn't it?

Knapp: Yes it did. Under the setup from 1952 to 1956, Bob Garner was the Vice President of the Bank and Chairman of the Loan Committee, but when the IFC was created, he moved to become the President of the IFC. Three Vice Presidents were then designated for the Bank and I was designated as the Vice President for Lending Operations. My colleagues were Dave Sommers as the General Counsel and Bill Iliff as a policy vice president available for assignment to special problems and special tasks. My function, as Vice President in charge of lending operations, became to an important degree that of reconciling the conflicts that
arose internally between the lending departments on the one hand and the projects department on the other.

Knapp: Then in 1972, after a long study by ourselves internally and by outside consultants, it was concluded essentially to decentralize the project work into the regional departments and to raise those regional departments in status, giving the head of each of them the title of "Vice President". Aside from the up-grading of titles, the essence of this reorganization was to abandon the institutional separation of the projects work, and to put it into the regional departments but, within the regional departments, to set up a structure in which again, the projects work retained its professional independence, thence, in each of the regional offices you had one or more lending departments (the so-called "Country Departments") and you had a "Projects Department", and every project within that regional office was screened and vetted by a group not directly responsible for the lending negotiations and the country lending programs. It then became the task of the regional Vice President to mediate and arbitrate the issues that arose within his own office, between the lending officers, on the one hand and the projects officers on the other. But it was still a little more complicated than that. It was obviously felt that there should be a common projects policy, a common approach among the six regional offices, and a Central Projects Office was retained to provide policy guidance to the regional projects departments and to still maintain a certain central authority and responsibility for the final integrity of the project analysis. In my role as the Chairman of the Loan Committee, although
much of the mediation and arbitration between projects considerations and country lending considerations was done at the regional level by the regional vice presidents, there still remained issues which would come up to my level where the Central Projects Department, under a vice president for projects, would be questioning, and sometimes even challenging the adequacy and the integrity of the project analysis done at the regional level.

Asher: Maybe we ought to get in who else is on the Loan Committee, or has been, and whether it operates as a committee that meets or as a group of individuals to whom the chairman can refer problems as they arise.

Knapp: The Loan Committee, in the old days before the '72 reorganization, consisted of the Chairman of the Committee (myself as Vice President) and all the heads of the regional departments (each sat in on every Loan Committee discussion) plus the director of the projects department, the General Counsel and the Treasurer of the Bank. In the reorganization of 1972, which generally was motivated by the idea of streamlining and delegation of authority, we abolished the idea that all the regional representatives would sit in, so to speak, on each other's projects as they were considered by the Loan Committee, and the Loan Committee came to be myself as the Chairman, the Vice President of the region involved, and again the Projects Vice President, the General Counsel, and the Financial Vice President of the Bank who had succeeded the Treasurer. Once in a great while, we would have broader
policy meetings where all the regional vice presidents would be brought together in the Loan Committee, but in terms of its function of reviewing individual projects, it became a meeting in which the regional vice president involved would present his case to a group consisting not of his fellows from the other regions, but of the various functional vice presidents that I have described. The question of how frequently we met evolved over time. I believe it was true to say that in the early days the Loan Committee met on practically every loan and, for that matter, every IDA credit. I'm going back now to, let's say, to the late '50s or early '60s. But with the multiplication in number and complexity of the operations, and with the establishment of standards and patterns and conventions, so to speak, that became less and less necessary. We began not to meet on small loans and not to meet on repeater loans which brought up no new problems. Gradually the meetings became the exception rather than the rule and we came to meet toward the end of my tenure on perhaps not more than ten percent of the loans that were coming up, meeting essentially only on those that presented interesting and significant issues.

Asher: Can you give us examples?

Knapp: They might be new issues or controversial applications of old issues, and usually they dealt with loan conditions. Only rarely would they deal with the question of whether we would make a loan at all, since questions of country creditworthiness and questions of sectoral distribution of our lending program in a country would have already
been resolved in the country reviews which were periodically conducted by the Management of the lending operations in each country. So those sorts of major issues scarcely arose but there would be issues of, say, the economic justification of projects and whether the rate of return was adequate to sustain it. In the area of economic rates of return, there are many questions of judgment about how rates of return are calculated and what weight is given to intangibles. There is plenty of room for debate about economic justification of projects. There is also plenty of room for debate about loan conditions. For example, is the institution that was going to conduct the project adequate to the purpose? What about pricing policy? In an agricultural project, are the marketing and pricing arrangements in the country concerned adequate to give scope to the project and to enable it to achieve its intended results? There may be issues of security, not of country creditworthiness but in the case of a self-liquidating industrial project or mining project, a question of what security was offered and what form.

Going back to the question of committee meetings, I don't mean to say that my intervention was confined to ten percent of the projects. My intervention often, and indeed usually, took the form of much less formal meetings, usually just with the regional vice president and his people to thrash out questions of approach and questions of loan conditions, and it was only ten percent or even less of the projects that were made the subject of a full-scale Loan Committee meeting. Even those full-scale Loan Committee meetings were commonly preceded by a meeting that I would have with the regional vice president to define
what the issues were and that we would both agree that these issues were
of sufficient importance or complexity that we ought to get a wider input
of views from our colleagues such as the Projects Vice President, the
Legal Vice President or the Financial Vice President.

I think it has sometimes been felt, and I think with some
justice, that I didn't sufficiently delegate authority, but before the
1972 reorganization and afterward—that I remained too long, so to
speak, the chief loan officer of the Bank, the final resort to arbitrate
an issue. Much though we tried to write down our principles and stan-
dards in organizational and operational manuals, it was my experience
that new issues kept arising and judgments on the applications of
issues became so sensitive that I would feel impelled to intervene
either myself or by calling a Loan Committee meeting for the purpose,
and I think there was a certain feeling that this represented an excessive
centralization of authority. Let me emphasize one point which always
was prominent in my mind in that connection, namely the overriding
importance in an institution like the World Bank of giving evenhanded treat-
ment to all the borrowing countries with which it was dealing. There
was always the danger, I felt, that with six different regional vice
presidents, and with quite different conditions in their regions as
between say Africa, on the one hand, or Latin America on the other, we
would drift into differential treatment of lending conditions between
the different regions. My interventions were very often directed to
trying to assure that we were doing the same thing in Brazil that we were
doing in Nigeria, or that we were doing in Thailand, and that there
was an even-handed treatment. The other reason why it was important to
have a strong central focus was that when we went to the Board, we
had to have a clearly defined standard and policy so that no Board member representing a country could claim that his country was being treated in an unfairly discriminatory way. This final culmination of each loan in action by the Board, it always seemed to me, required a pretty strong central control in the formulation of loan proposals.

Ascher: Well, I have to confess that I haven't gone around the Bank trying to get criticisms of Burke Knapp as the Lone Ranger holding up projects in order to make sure that justice was being done but the reaction, at least from some borrowers that I have heard, has been that the total process of getting a loan through the Bank's sausage machine is a terribly time-consuming one—terribly demanding on the country (certainly in the early stages of its relations with the Bank), tends to take several years to come to its culmination, and that this is in some sense a safeguard but also an irritation and a deterrent in another sense to the Bank's conception of what a development agency should do. It results in a kind of, at best, trickle of funds during the early years and prevents the Bank, when a new country joins after prolonged negotiations about its terms, and so forth—general terms of admission—giving any financial aid in a short time. Has this—the length and complexity of the process in relation to the administrative capacities of the borrowers and their hunger for the funds—has this worried you and is there anything that has been done or can be done about it?

Knapp: Well, I think the first point I'd like to make with respect
to that is that the delays, or to use a less prejudicial word, the "time" consumed in processing projects has not been attributable to any significant extent to internal, organizational complexities. It's true, of course, that every level of review that you establish, including the review by the Loan Committee, is a further step to be taken and takes additional time, but I think the time consumed in the processing of loan applications or project proposals is not much related to that. It is rather related to the great care and attention lavished by the Bank (and I use the word "lavished" quite consciously) on project preparation and analysis, on getting the institutions established that are necessary to the execution of projects, and on working out and negotiating the loan conditions. The process of negotiation is sometimes very time-consuming. It would be less time-consuming if either side were less stubborn in asserting its position, and the Bank could easily shorten up the time of project preparation and processing by (and now I'll use some prejudicial words) by relaxing its standards or by being a pushover in negotiation.

With all that, I wouldn't want to defend the amount of time taken in the case of some projects. There is obviously a process of diminishing returns under way in processing refinements in any given project. Time lost is time wasted. Costs are rising all the time; benefits are postponed and foregone if there are delays in launching the project. The best is the enemy of the good. One may have to get ahead with the job without refining it to the point of satisfying all professional prides.

I therefore don't want to enter a general defense against
these feelings that are being generated in many developing countries, but I think we've been conscious of them and we've tried to adapt our (not so much our organizational procedures, which I don't think are very important), but our standards of analysis—the degree of refinement before we go ahead with the project—to strike a proper balance. We must also remember that, in the developing countries, partly by reason of just lack of sophistication, partly because governments or individual ministers have their reputations—sometimes their egos—at stake in launching particular projects, there are pressures for premature investments that somebody has to resist. On the other hand, the people in the Bank, including particularly the people that are doing these tasks of project analysis and project negotiation—they want to get ahead with the job. Their own professional reputations within the Bank depend, perhaps excessively, upon getting ahead with the job and showing a record of accomplishment.

Asher: More true in the last decade than before?

Knapp: Yes, perhaps.

Asher: In the McNamara years?

Knapp: Yes, perhaps.

Asher: Because before that there weren't the same kind of lending targets, and so forth, were there?
Knapp: Well, there was the same professional zeal on the part of the people in the Bank in getting ahead with the job. But, it's true, there was not the same definition of lending targets and the same sense of disappointment or even failure if you didn't achieve targets that came to exist in the McNamara years.

Asher: Burke, you mentioned country reviews as a major item of background against which individual loans can be considered, and so on. But it might be interesting to have a little more information on this country review process and the degree to which you, in your vice-presidential capacity, may have been concerned with it.

Knapp: Well, the country review process--in its present form at least--was inaugurated by Bob McNamara who felt when he came in and looked at the way the Bank did its business that there ought to be a much more systematic planning of a five-year cycle of activity in each of the borrowing countries--in other words, a five-year lending program, if you like, by the Bank and IDA. Prior to that time, we had had some kind of forward programs for two to three years in many countries, but certainly not in all. I had become, myself, increasingly aware of the fact that individual projects ought to be considered within the framework of a general concept of the creditworthiness of the country, the scale of activities that we planned over a period of years, and the sectoral priorities which could be serviced over a period of years; and we had made some progress as projects were presented to the Loan Committee in having the regional office concerned present these projects within
such a framework. But Bob McNamara instituted a very much more systematic approach, insisted on applying it to every country, and insisted on having at least an annual review, independently of the consideration of any individual projects, of our five-year forward program in each country.

Asher: Do you mean an annual review before the Board or an annual review...

Knapp: No, an annual internal review. These reviews were chaired by the President for the major countries—in fact, for the larger number of countries—but for the small countries they were chaired by myself as the Vice President or Senior Vice President in charge of lending operations. The others attending (to use the post-1972 titles) would be the regional Vice President, the projects Vice President, the financial Vice President and the economics Vice President or his representative. As far as my own function was concerned, when a review meeting was chaired by the President, of course, I was present and McNamara would always ask me to speak first and to express my views. We would then go around the table and finish up with him. So it became a very important part of my function to participate in and chair these annual country reviews. Indeed, these reviews became of critical importance both in orienting our country programs, and in appraising the overall financial operations of the institution because the financial requirements of the institution over a period of years were, in a sense, defined by the aggregate of these country programs.
of course, in another sense, the size of the financial resources available determined the size of country programs (especially in the case of IDA you clearly had an allocation of funds for a three-year forward period which then had to be rationed out to countries). In other words, there had to be a reconciliation between the country programs, on the one hand, and the overall financial capabilities on the other. But, nonetheless, there is a great deal of truth in saying that the aggregate program (perhaps more on the Bank's side, as distinguished from the IDA side) became an aggregation of the individual country programs.

Asher: And there were usually meetings?

Knapp: Almost always meetings, even when the issues were known to be brief and sometimes the meetings didn't last very long. As a matter of fact, as a mark of McNamara's mode of operation, I should say that very rarely did any meeting—even on a major country—last more than thirty minutes, although sometimes, I guess, they extended to an hour. Certainly there would have been others around the table who would have been glad to spend a couple of hours debating major issues of our relations with, say, India or Brazil or Turkey or Egypt or Indonesia. These meetings would be presented with an analysis of the political and economic conditions in the country, an analysis of creditworthiness or, so to speak, IDA-worthiness, and an analysis of country performance and how successful the Bank had been or not been in influencing it (country performance now being defined in the broadest economic sense—covering the formulation of a development program and supporting policies, the
mobilization of resources, income distribution, etc.) But beyond that broad background, the meeting would be presented with a lending program run out for a period of five years, with amounts established year by year and defined in terms of individual project numbers. Recognizing that, depending upon the country concerned, this program became increasingly tentative as you moved toward the outer years, there was a great deal of resistance, initially, from the regions in being challenged to say what they were going to do four or five years hence. I can even imagine there was a great deal of inventiveness and imagination in filling out the later years.

Asher: So I've heard.

Knapp: Nevertheless, as a tool of management for establishing total financial requirements and gearing up the Bank borrowing program, for example, or the next replenishment of IDA, these five-year forward lending programs, though sometimes "creative" rather than all that solidly based, were undoubtedly very, very useful.

Asher: Were the Executive Directors of the countries involved at all jealous to get in on this process at an early stage?

Knapp: Yes, I meant to mention that because not just the Executive Director of the country involved but the Executive Directors collectively, were always very unhappy that the country program papers—the presentations on the one hand, and the management's conclusions on the other—
were carefully guarded as confidential papers not available for examination by the Board. Yet McNamara was very insistent that the papers retain that quality, while at the same time seeing to it that it became standard practice in loan presentations to the Board to have a section dealing with the country broadly and putting the loan proposal in the perspective of the Bank's program in the country concerned. But what went to the Board was qualitative in nature—it talked about creditworthiness and about sector priorities, but it did not quantify the lending targets in future years for purposes of the Board. We felt, among other things, that if these numbers that came out of the five-year forward programs were communicated too fully or too openly to the borrowing countries, they would create tremendous problems for ourselves. They would become regarded as commitments and, if only because of the changing conditions of country creditworthiness and country performance, we were anxious not to establish these figures too firmly. On the other hand, it has to be said that in our dialogue with the countries concerned—the dialogue conducted primarily by the regional offices—they used these figures with discretion in talking to the countries concerned, thereby trying to meet one of the old requirements that have been insisted upon by developing country borrowers that they ought to know for a reasonable period ahead of time, like three to five years, what they could count upon in the way of financing. So, while we didn't want to make commitments, we did recognize the need of the borrowing countries to have some idea of what resources they would be able to command over a period of years. But that was in relation to the individual country, including, of course, the Executive
Director of that country. For the Board as a whole, let alone wider dissemination, we felt that these five-year country programs and five-year country reviews should be retained as confidential documents.

Asher: Well, I can well imagine that with the number of countries—members of the World Bank and the number of loan operations that the Senior Vice President for Operations would have his hands pretty full but I still would like to ask the question—there must have been other claimants on your time, too and how you treated those and more or less institutionalized the role of Vice President for Operations as embracing certain activities and, perhaps, not embracing certain others that might conceivably have been within the province of the Vice President.

Knapp: Well, yes. May I perhaps comment about my own titles and roles because I think there's some misunderstanding about this. I did mention earlier that, going back to 1956, I became one of the three vice presidents. Right from that time, I was, in effect, the Senior Vice President for Operations. I was Chairman of the Loan Committee, which is another way of putting that title. Dave Sommers and Bill Iliff were members of the Loan Committee; Sommers certainly was and Iliff, I believe, participated from time to time but I was the senior officer in charge of Bank lending operations. Now, when Sommers retired as Vice President (and he was not replaced by a vice president at that time) and when Iliff also retired---

Asher: ---and was so deeply involved, wasn't he, in those Indus River
negotiations between India and Pakistan that he hardly had time for other activities?

Knapp: He was so deeply involved he hardly did anything else in the Bank. So that by the early sixties I became, in effect, the Senior Vice President for general Bank purposes, which means to say, for example, that I chaired the Board when the President was away. As the alternate Chairman of the Board I had to be familiar with anything and everything that went on in the Bank of any importance that could come up at Board meetings. More specifically, as we came to the reorganization in 1972, the question arose whether my title should be "Senior Vice President" which I was in effect or "Senior Vice President - Operations" and he decided that it should be "Senior Vice President - Operations" because he felt quite rightly that I really wasn't, except in his absence, a full senior vice president in a sense that such things as the financial wing, the economics wing, and the public relations wing all reported directly to him. He had a very wide, and some would say, an excessively wide span of people who reported directly to him but, on the other hand, my hands were quite full with lending operations and with keeping up sufficiently on these other matters so that I could fill in during the President's absence. Anyway, that's the way it worked out, in terms of my title as Senior Vice President - Operations--to my mind, that's essentially the same as the title of Chairman of the Loan Committee which runs the lending operations of the Bank and I had been that, in effect, since 1956.

Now, that's an interjection about titles and functions but you
talked about "what else did you do?" Well, there was a very important function which really had to be lodged centrally—the allocation of lendable funds as among countries. In the case of the Bank the questions of what funds were available and what could be raised were much more flexible than in the case of IDA. In the case of the Bank, broadly speaking, we went out and raised the money to finance those projects which were sound projects in creditworthy countries, and we usually didn't sense any severe rationing problem with respect to Bank funds. In any case, the total Bank program, as I said, was very largely an aggregate of the individual country programs. In the case of IDA we had a very different situation. Firstly, there was a clear, concrete ceiling on amounts that could be committed out of each replenishment. You'll recall we had a cycle of three-year replenishments which established the amounts the donors were prepared to provide to IDA over a period of three years. They were also the kind of funds, that is, highly concessional funds which were in tremendous demand, and always fell far short of the "needs" of the developing countries. Therefore one had to set up a rationing system and we had a rationing system based upon certain principles which I'll outline in a moment. However, the application of these principles was not arithmetic or mathematical or slide-rule. It involved large elements of judgment and the allocation of IDA funds became an exercise conducted semi-annually under the responsibility of the Senior Vice President. I don't mean to say that the allocations were not reviewed or sometimes significantly altered by the President who retained the final authority for them, but the sweating out among all the competing regional requirements and all the different ideas
which, in particular, might be held within the economic wing—the sweating out of these allocations became an important function of the Senior Vice President.

The principles of allocation have been stated in papers to the Board from time to time, and have been approved by the Board as the basis for an allocation to be made by the management. Perhaps I should say at that point that the allocations were never brought before the Board for approval except, perhaps, in quite exceptional instances, such as the convention of allocating forty percent of IDA funds to India. That cap on India was a matter of formal Board discussion and decision.

Asher: And was the relationship of that to allocations for Pakistan.....

Knapp: At one stage—I think Pakistan, also, was a matter that was discussed by the Board. Those are very exceptional cases.

Asher: Was the Indonesian allocation discussed by the Board?

Knapp: No, I don't believe so. What this reflected was an acknowledgment by the Board that the allocation of IDA funds, given their acute scarcity, was such a potentially divisive and controversial process that to bring it before the Board with, on the one hand, all the competing groups of borrowers and on the other hand, the, so to speak, sponsor countries or patron countries among the Part I industrialized group—example, the British looking out for the Commonwealth, the French for French Africa, the United States for Latin America, the Japanese for East Asia, etc.—
that all this would be so totally divisive and controversial that it was best kept off the Board table and left to the discretion of the management. This, of course, placed a very special responsibility on management to do this job with utmost conscientiousness and with utmost attention to even-handed treatment for different countries and different circumstances. The Board did content itself very largely with the establishment of certain principles.

All right, now what principles? Well, obviously you have to start with the question of the size of countries. Essentially, funds for development are serving peoples and there are countries with large populations and those with small. India is at one extreme—

Asher: What about China?

Knapp: China! A very special case, China, but let's go to that later if you like. Obviously, countries differed tremendously in terms of their size and the size of populations and the size of needs; and, indeed, there were some who said, "you can almost end there--you can simply allocate the available funds in proportion to the population of the recipient countries. But in fact other principles were established, for example, the principle of poverty. After all, there was a spectrum of poor countries eligible for IDA. There was always a ceiling in IDA on the maximum per capita income which a country might have and still remain eligible for IDA, but that figure was always fixed fairly high and the concept was that as you went down the scale from that ceiling, countries should be treated more generously in relation to their degree
of poverty. There were also questions of large countries versus small countries; there's always been a bias in all aid administration in favor of small countries. Partly this is due to the indivisibility of projects, partly it's due to the inherent instabilities and economic disadvantages suffered by very small countries.

Asher: It may also be due to the hope that you can make the impact more visible--more quickly--in a small country.

Knapp: Hmm--I don't know that that's the significant point but be that as it may, there certainly was always that bias. There was also, of course, the criterion of country performance--how much this country seemed to be dedicated to development and how much it was doing to mobilize its own resources, the general concept being that you helped those that helped themselves. Any IDA allocation was subject (I want to be clear about this) to that country presenting acceptable projects. If they couldn't, the funds were not made available.

There was a very interesting question of how far the allocation of IDA funds should be affected by the allocation of other aid funds around the world. To take one extreme--you might develop a concept of what is to be the ideal distribution of all external aid to developing countries; then you look at what the rest of the world is doing, bilateral programs, other multinational institutions, etc.; and finally you use IDA funds to fill in the gaps.

Asher: Didn't the Pearson Commission, in effect recommend that?

Knapp: They did, that's right, and yet it was a hopelessly impractical
proposal from a political point of view because what it meant, essentially, was that all of the donor countries, whatever purposes they had in allocating money to their particular clients, would be frustrated by IDA coming in as sort of a supranational final gap-filler and changing the overall pattern to suit its wishes. That was one problem. The other problem was that, looked at from the point of view of the borrowing countries, each of them felt they had a claim on IDA in their own right and as members, and the fact that they were getting what some might think was excessive aid from others should in no way dilute their claim upon IDA. So, in establishing the principles of IDA allocations we ended up by recognizing this consideration and acknowledging that it was something "to be taken into account." The phraseology was very loose to make clear that this was a very minor theme and not a clear criterion.

Now, with all these principles, that still doesn't yield you a very clear and definite basis for allocation. The question of country performance, the question even of poverty, is not so simple as to yield clear figures. It depends upon climatic conditions; it depends upon the distribution of income within a country, and let me add one more which was never stated in the principles of allocation approved by the Board. Quite frankly, one more was the pressures brought by what I'll again call "the patron countries". The United States had its interests in certain countries and wanted to see them supported; the British and French, the same; the Japanese, very much the same. The French at one time practically threatened to withdraw from IDA if French African needs were not more effectively met, even though, at that time and still, now the allocations of funds on a per capita
basis to French Africa have always been extremely generous.

I have injected the pressures brought by patron countries but let me say that that never became a very significant consideration; very, very largely the allocations were done by a collective judgment over which I presided, about what seemed the most fair, equitable and productive allocation of these funds.

Now as far as India is concerned, (Pakistan became less important after its split into Pakistan and Bangladesh, and after Indonesia came in as an equally large claimant) one could make a good argument on the basis of size of population, size of needs, poverty, performance, what's allocated to India from other aid sources, etc., that the great bulk of all IDA funds should go to India.

Asher: They would have agreed.

Knapp: (laughing) Yes. But was a practical (let's call it a macro-political) consideration that you just could not have a truly international organization which was devoting more than 40% of its resources to a single country, any more than you could have such an organization in which more than 40% of the resources supplied by any individual country—that is, the United States. Of course, the argument could be made that the US on a resources basis might have provided 50% or 60%, but this was just not in the cards. Indeed, in these days the US is standing on the principle that no single country should have to provide more than 25% of the resources of a multilateral institution and their share in IDA 6 was only 25%. Obviously all these round figures are
partly arbitrary and subject to debate, but the 40% for India has proved to be a convention that has lasted up until the present time. Perhaps I should add that since my time of responsibilities as Senior Vice President China has come in as a claimant on IDA. I understand that during the negotiations with China with respect to their taking up the responsibilities of membership in the World Bank, it was made explicitly clear to them that the Sixth Replenishment of IDAs resources had been negotiated without regard to the needs of China, and that if China were to get funds out of the Sixth Replenishment, it would be at the expense of other countries who had been the intended recipients of those funds. So far, the management of the Bank has managed to fudge this issue by limiting IDA allocations to China to the resources provided for the Sixth Replenishment out of World Bank profits and not those coming from donor countries. Now how long that theory can hold up, I don't know. Of course, my simple formulation of this problem with China and IDA, if you'll follow my "simple" arithmetic, is that India was getting 40% of the IDA pot, China has a population about half again as great as India, therefore that entitles them to 60%, therefore there's nothing left for anybody else. (laughter)

Asher: I don't think that'll wash because one of the criteria that you mentioned before--the income one--per capita income, I guess, has probably been accepted by now but initially, certainly, was a sore point with Latin America. Your early Bank clients were almost entirely cut out. They said they were neither contributors nor beneficiaries or somehow recognized as members by the IDA process. You can comment
on that if you wish. Also, you mentioned the replenishment process and an allocation criterion in there, namely that no country would be expected to contribute more than 40% of the resources. Have you been involved in the replenishment negotiations enough to know the difficulties and the problems that are encountered in that?

Knapp: Yes, I've been very much involved; in fact I chaired the second replenishment exercise, and have shared in one way or another in all the subsequent ones.

Asher: That was the one that went smoothly, wasn't it?

Knapp: No, no. This was the one where the United States introduced "balance of payments safeguards" on their contributions, which was a very difficult issue. As a matter of fact I have actively participated in the last couple of replenishments, although the officer in charge has been the financial Vice President—the last, Sixth Replenishment was presided over by Peter Cargill.

Well, there are several interesting things about these replenishments. The first is how do you establish the size of the replenishment, and the second, how do you establish the burden sharing? Both of them, I would like to emphasize, have been matters of negotiation, rather than determined by any slide rules. If you talk about the total amounts, the "needs"—there have been many attempts to define needs, and most of them are based upon sets of assumptions which are easily subject to challenge. It's extremely difficult to get any international consensus
as to what are "needs", first of all, what are total needs and secondly, what role within total needs should be performed by IDA. There has been a sort of a general feeling that multilateral channels for concessional lending might supply something like 30%—a range of 25% to 33%—of total concessional aid, with bilateral channels supplying two-thirds to three-quarters, but this distribution between bilateral and multilateral channels differs markedly as among different countries. During the 1980's a certain base was established as to how large IDA should be, and the argument has run more in terms of how much expansion of IDA activity in real terms would be desirable. In fact, in the fifth and sixth replenishments this became the clear focus of the argument; it was accepted that the base had been established; it was accepted that the base should be expanded in accordance with inflation, with a range of estimates about what inflation would be over the ten-year period during which the IDA funds were disbursed; leading to the final argument as to how much (if any) expansion there should be in real terms. Nobody argued in the fifth or sixth replenishments there should be no expansion, in real terms, but should it be 2% per annum, 5% per annum, 8-10% per annum? Actually, the total figure of $12 billion for the sixth replenishment was worked out on the basis of IDA 5 plus an adjustment for inflation plus a 5% per annum real increase. My impression is that, since that time, the real value of the IDA 6 has been substantially diminished by the advent of a rate of inflation much greater that that which had been estimated.

Well, then we come to the burden-sharing. Several attempts have been made, including a very detailed and extensive analysis
and discussion of burden-sharing in I think 1979, to establish rational burden-sharing criteria. Most of these attempts start with relative GNP's, then modified by GNP per capita on the assumption that countries with lower GNP per capita should be assessed less than countries with a higher GNP per capita (application of progressive income taxation). But then, questions arise of relative balance of payment and reserve positions, questions of how much different countries are doing through bilateral channels (the French, for example, always claiming that they were doing so much through bilateral channels that they were entitled to do less through IDA) and then very large questions thrown up particularly by the United States about what the responsibilities of different countries were in the world—not only in relation to supporting developing countries but in relation to other international functions, including particularly the maintenance of international security. The United States has long argued that, although the amount it puts up to IDA and other international aid programs is much less than might be justified by the level of its GNP, balance of payments, etc., recognition should be given to the great burdens that the United States carries with respect to the maintenance of international security, the "nuclear umbrella", etc. This argument becomes, of course, particularly pointed toward Japan—a virtually disarmed country for which the United States provides security protection. It concludes that, in proportion to GNP resources, Japan should make a far greater contribution to international aid programs and to IDA in particular.

Well, it really proved excruciatingly difficult to get a meaningful discussion on principles of burden-sharing, and therefore
it becomes very much a matter for negotiation. For the officer of the Bank who is conducting the negotiations, it becomes a matter of trying to proceed by successive approximations to reach a final package. What normally happens is that you start out with a global target figure (in IDA 6, for example, it was $12 billion), and you find that the aggregate amount that donors are prepared to pledge at that stage is only $11 billion. No, it is not just a simple matter of trying to round up another $1 billion of pledges. The percentage figures for each donor country also have to be watched, since they have a life of their own. Sometimes a country will be prepared to put up more money even if this increases their percentage, but other donors may be prepared to go higher in amount but not in percentage - i.e. they insist on everybody else going up correspondingly. Or possibly they can be satisfied if the matching money is provided by a new donor, which would leave their percentage unchanged although the percentages for other existing donors would go down. All of this turns out to be quite a game and eventually you may have to complete the negotiations (as was done in IDA 6) by letting some countries label part of their contributions as "one-time" (i.e. they declare that they will accept a higher percentage for the current replenishment but not for the future) or by leaving a final "un-allocated" gap which may never be filled, in which case everybody's percentage is higher than bargained for. There remained an unfilled gap of $150 million in IDA 6.

I should add the ironic note that after all this desperate bargaining over percentages, these percentages are completely at the mercy of subsequent changes in exchange rates. This is because in
recent replenishments - as contrasted with earlier ones - there is no
provision for maintenance of value on donor contributions. Hence, if
the dollar weakens during the coarse of disbursement on any replenishment,
the United States percentage share goes down; and conversely, if the
dollar strengthens the United States percentage share goes up. Again,
Ironically, it was the United States that insisted on the abandonment
of maintenance of value because it thought that it was too much trouble
to get the Congress to appropriate money on this basis. During the IDA 6
negotiations the United States fought bitterly (and in the end successfully)
to reduce its IDA share to 27 percent, but as a result of the recent
strengthening of the dollar - and assuming that the present higher
value of the dollar is maintained over the IDA 6 period of disburse-
ment - the United States share will turn out to be more than 30 percent.

Asher: Is there a further problem in that, if I understand it correctly,
donor countries, Part I countries, do not give the Bank the amount and
let you put it into the Dreyfuss Fund or something and get a return on
it. They....

Knapp: Oh yes, that's right...

Asher: They dole out the funds as required.

Knapp: Oh yes.

Asher: ...and is it easy or hard to extract them in accordance with
the schedules you envisaged when you launched the program?

Knapp: Yes, that's a very important consideration—that the money on any replenishment is put up not immediately; it's not put up over the three-year period that is commonly spoken of as the period of replenishment. It's only put up over a period of ten years or more—the period over which disbursements are made on the projects financed out of the replenishment. Let's take sixth replenishment resources—those are provided to IDA for commitment over a period of three years. There then follows on projects a period of six or seven years disbursement. If there's a three-year process of commitment and then a seven-year ensuing period of disbursement, it takes a period of ten years to call up all the money.

I should perhaps add that donor countries do go through the purely paper exercise of depositing notes equivalent to their pledges in three annual installments, those notes being simply formal evidence of their obligation to provide money. In a sense those notes are what IDA can commit against, but they are to be drawn upon only to meet IDA's disbursement requirements. As IDA needs funds for disbursement, it calls pro rata upon the circle of donors. The pro rata principle is very important to assure equal distribution of the burden among the donor countries over time, because the real burden falls on budgets and on balances of payments only as those funds are actually withdrawn.

I might say that all of these funds are freely available and convertible, and therefore there are pro rata drawings on all countries, irrespective of what particular currencies are required to
finance the procurement under IDA-financed projects. There was only one occasion—that second replenishment—when the United States insisted that it was in such balance of payment difficulties that it could only afford to put up money for purchases in the United States—that it could not bear the possible burden if procurement in the United States was less than their share in financing the replenishment. After a terrible struggle, agreement was finally reached on the principle that the United States contribution (which was then probably nearly 40%—the U.S. share started at 40% in the first replenishment and has fallen to 27% in the sixth replenishment) would initially be called upon only for disbursements in the United States. Since disbursements in the United States were proportionately much smaller than the US share in the replenishment, the other donor countries found that the calls upon them were accelerated as compared with pro rata drawings. The provision was that after the funds available from other donors had finally been exhausted, then, and only then, would the United States pay in the final, remaining balance of its share in the replenishment.

I wanted to mention that one of the balancing factors in recent replenishments has been the advent of new donors and these new donors have been, first of all, the OPEC countries, some of whom came in in the fifth replenishment, and, secondly, a considerable number, though individually small, of the more advanced developing countries. Already in the fifth replenishment we had Saudi Arabia, Kuwait and the United Arab Emirates who provided something like 7% or 8% of the total and who, again in the sixth replenishment, came in with a comparable contribution.
Asher: The years of the fifth replenishment were what?

Knapp: '78 to '80 fiscal years.

Asher: Well, after the oil crisis-- '73 and '74.

Knapp: Right. Well, it was negotiated along in '76 and '77 and came into effect in '78. Still on the OPEC countries, we never have been able to get the participation of countries like Iran, Iraq, Libya, Algeria and that's been a disappointment. We had hoped in the sixth replenishment to be able to add some of those countries, but failed. I was personally involved in an extensive negotiation with Iran, as the most likely among that group to have joined and supported IDA, and within just a few weeks before the fall of the Shah, I had met with the Minister of Finance at our Annual Meeting and had been invited to come out to Iran to pursue the discussions. But it....

Asher: All fell dead.

Knapp: Now, at the same time, we did in the sixth replenishment enlist countries like Argentina and Brazil, Mexico, Venezuela, Colombia, Korea, Spain, Portugal, Greece, Yugoslavia and somewhat problematically, Romania---it's not clear they are ever going to follow through on this.

Asher: But still a number of OPEC countries have held out--for what--for political reasons?

Knapp: Well, our relationships, it has to be said, with countries like
Libya and Iraq have been very remote; we've never quite found the key to effective cooperation with those countries. Also, they do have their own channels for dispensing assistance, notably the OPEC Fund. For countries with whom we have no particular relationships, it's very easy for them to say "we have our own channels and our own organizations in which we place confidence and use them as our vehicles."

Asher: The terms of IDA credits are exceedingly generous--fifty years--three-quarters of a percent service charge--close to a grant in a period of great inflation. In retrospect, do you feel any regrets that maybe a twenty or thirty year credit with some kind of renewal provision at a slightly higher charge or rate of interest might have been better? I mean, fifty years is an awfully long time to see ahead and it gets harder all the time to see ahead more than a few years.

Knapp: No. Basically, I have no regrets about that at all because I think that the original concept of IDA credits was as it should have been, namely, just as close to grants as you could get away with politically. No, I think we spared ourselves a lot of trouble by not adding the burden of IDA credits -- any more than the minor burden that they presently impose--upon the debt structure of developing countries, which has become difficult. We did feel that they should be interest-free. We did feel that they should finally be repaid and not be grants, but that the repayment should be extended as long as one could, with a straight face, say "this is still a loan."
Asher: You can't say it for much more than fifty years....

Knapp: A hundred years seems a little ludicrous. Fifty years seems about the maximum you could go. As for the design of the repayment pattern, there is a period of grace of one decade and then 1% a year in the second decade and 3% a year in the third, fourth and fifth decades. That was something I worked out on the back of an envelope during a Loan Committee meeting (Laughter) as a way to get to a 100%. Now, there is an interesting question. Some people say that because of inflation, the terms of these loans have become much softer in terms of present value or grant equivalent than had been originally intended, and why not tighten up the maturities or put in an interest rate that would reduce the grant element to what it was originally. I can see no merit in that. I don't see any merit in shortening up maturities and I don't see any merit in charging an interest rate unless, as it may be, IDA will come to the point where it cannot raise money altogether in terms of donations from member countries but will have to borrow from member countries instead, and perhaps borrow at an interest rate.

Asher: ....unless there's a kind of third window operation, that is a subsidized interest rate and you get the money, it's an end of IDA, isn't it, as compared to what it's traditionally been.

Knapp: Well, let's look at this. Let me put it from the point of view of the donor countries. So far the donor countries have provided grants to IDA--contributions--no claim to repayment except in the eventuality of liquidation. This has meant that IDA has become a revolving fund
and that IDA repayments, rather than being paid back to the donor countries, are really a revolving fund for fresh lending. Now, the amount of the revolving fund so far has been very small only because IDA hasn't yet gotten very far into its period of becoming a mature lender, especially given the ten-year period of grace and only 1% per annum repayment in the second decade. We're only beginning to move into the third decade of payments from the first IDA borrowers. So some countries have mumbled about this in recent replenishments--well, this shouldn't be a revolving fund. We at least ought to get our money back when the monies are received by IDA on repayments. If we want to finance IDA in the future--OK, but we shouldn't agree in advance to leave in IDA the money that's flowing in from repayments. That argument, I must say, has become much more muted as we've moved into the stage of high inflation, because the present value, or the real value of payments being received forty to fifty years from now, is so diluted. On the other hand, some people would say, well, the time has come when IDA ought to start charging interest and we ought to get some interest on the money we put into IDA. After all, with the rate of inflation, IDA loans have become so soft that an interest rate would still leave the grant element very high.

It may be that as we move into IDA Seven (and there've already been some hints of this in statements by the United States) it may be that at least part of the monies this time are going to have to be borrowed and borrowed at interest. Of course, I strongly believe that IDA should be self-liquidating in terms of its operations, and basically it has been so far though with some tendency for a deficit to develop recently. The three-quarter percent a year charge which IDA makes on all of its credits was designed specifically to cover operating expenses--it's a service
charge—and it has worked pretty well for that purpose. But in the future, if funds have to be borrowed at interest, funds are going to have to be lent at interest—unless some source of interest subsidy can be found, and I doubt if that's going to happen. But I wouldn't charge an interest rate on IDA credits for its own sake, but only if its necessary in order to maintain its self-supporting character.

Now you alluded to another interesting question about whether there shouldn't be some windfall provision—after all, who can look ahead fifty years and tell what conditions a country will be in. They may discover oil; they may discover minerals; shouldn't you at least have some windfall provision that, if a country suddenly finds prosperity, that it would repay these IDA credits. You could take some cases from actual experience.....

Asher: Germany, under the Marshall Plan.

Knapp: Yes. But even under IDA, I was thinking that you could take the case of Taiwan, a very, very prosperous country these days which originally got IDA credits. So did Korea. Or you could take a country like Indonesia which struck oil very big and has been graduated out of IDA into the Bank and you might say—go beyond that and ask them to prepay their IDA credits. Now, its a very attractive proposition that you ought to have some kind of provision in an IDA credit agreement that a country would repay if it had windfalls, or unexpectedly made immense progress in development and in its capacity to repay. I remain somewhat skeptical about it though. If you want to negotiate an agreement on this subject, the question is, who's to judge whether a country's
in a position to repay after the originally agreed schedule. One possi-
bility is that IDA's the judge. IDA just determines that a country is now
able to repay and demands and collects repayment. I don't think that's
negotiable, to put that decision wholly in the hands of IDA. On the other
extreme, you can have a provision that says that IDA has the right to
raise the subject and to negotiate for it, but that it's up to the
country concerned to determine whether it's in a position to comply.
Well, my answer to that is that we can always go to a country and ask
for prepayment. In fact there has been some serious talk recently that
one of the ways to fortify IDA resources might be to go to countries
like Taiwan and Korea and say, "Look, it's time that you did your bit and
one of the ways you can help is to contribute new funds to IDA. Some of
the countries that I mentioned earlier--the Latin American countries---
have done that. But another way you can help IDA out is by prepaying your
past credits on a voluntary basis. All I'm saying is that for such a
purpose you don't have to have a clause in a loan agreement although
I acknowledge that it might be helpful. A middle alternative, of course,
is to agree that when certain defined criteria are satisfied, you begin
repaying on a certain accelerated schedule. There I really despair of
being able to work out generally acceptable, negotiable criteria.

Asher: Well, we've been at this for quite a while. We haven't nearly
exhausted the subject. Your rich experience could keep us going for
a lot longer but I wonder whether we really should't think of this in
terms of the possibility of continuing at some other date before we
both lose our voices by trying to play the whole record out this morning.
If the possibility of a second session is agreeable to you, let me just
end by thanking you very much for subjecting yourself to Part I of this ordeal. It's been very, very helpful and informative.

Knapp: OK Bob. That's fine and we'll talk about fixing another time and I want to say I thank you for your stimulating and interesting questions and comments.

Asher: Today is October 29, 1981. My name is Robert Asher. I am here at the World Bank with Mr. J. Burke Knapp to continue the discussion we began on October 16.

Burke, you are a native-born citizen of the United States who came to the World Bank from the US government. All six presidents of the Bank have been US citizens and, without the support of the US government, the Bank surely could not have reached its present stage of eminence. Nevertheless, living cheek-by-jowl with your largest stockholder can, at times, be a little too close for comfort. I'm under the impression that you, quite deliberately, have not tried to make relations with the US government an important part of the job of senior vice president. Yet you must be aware of the importance of the views of the US government and the problems raised by them with respect, say, to human rights during the Carter Administration and at other times to loans to particular countries for exports that might compete with US exports. You have already mentioned its handling of IDA replenishments. Your views on the restraint or the lack of restraint of the US government in pursuing its objectives and your personal policy regarding involvement in those problems—the problems that have arisen—would, I think, be very valuable.
Knapp: Well, Bob, that does open up, I think, a very interesting area regarding the nature of the Bank as an institution and really the extent to which it has succeeded in becoming a professional international institution—professional and non-political—rather than one bending to political influences; because had it been bent to political influences, the most obvious one would have been, indeed, the influences radiating from the largest stockholder of the Bank and the nearest one.

I really think it's a great tribute to the Presidents and managements of the Bank how far they have been able to preserve their independence, if you like, from political influence, not only from the United States but from other quarters; and I think it's been, on the other hand, rather remarkable how far successive US administrations have refrained from intervention in the affairs of the Bank and particularly in the direction of its lending activities. There have been very active pressures from the US Congress from time to time but, to a very large extent, the Bank has been protected from these pressures by administrations who accepted the operating independence and the professional character of the Bank as an institution.

As you suggested, I, myself, as the, so-to-speak, chief lending officer of the Bank felt it particularly desirable to keep away from entangling relationships with US government officials. I felt that, to expose myself unduly to them, could bring with it the danger of my being brought under pressures that I would rather have avoided. I've always had very good working relationships with the United States Executive Directors in the Bank but, beyond that, I deliberately kept my distance.

Back in the earlier days of the Bank and even in the earlier
days of my own work, say, back in the middle 1950s, there was a tendency sometimes for State Department officers--let's say Assistant Secretaries in charge of the different regions--to get the impression that the World Bank was one more tool at their disposal like the Export-Import Bank or the AID or whatever its equivalent was in those days. It was only after some experience that the tradition was established that the US would not intervene in the affairs of the Bank, trying to get the Bank either to do something that was deemed to be in the US political interests or to refrain from doing something. I think it's remarkable how the people in the State Department came to accept the situation, just saying, "Well, the World Bank is beyond our area of control; it's an international institution but even more it's a professional institution. We're not going to try to use it for political purposes."

I've talked so far about interventions of a baldly political character--"we want to support this government, or we want to punish this government" or "we want to have the Bank orient its activities toward areas of special interest to the United States." There were other reasons for intervention, and one of them you've alluded to which was the commercial instinct. In many respects, the World Bank's development loans were building up productive capacity reflecting a changing pattern of the division of labor in international trade, and one could look at this as the promotion of competition for the US. At times, we've had our troubles with the US Congress; there were attempts in the Congress to lay down rules by which the Bank should be guided with respect to its financing of commodities in which the United States had a special interest--for example, palm oil or tobacco or soy beans or whatever product it might have been in which they saw the World Bank as fostering competition in the world market. I don't recall any administration
that accepted these Congressional interventions happily but, of course, in some cases they had to try to carry the will of Congress through the US Executive Director in the Bank.

At times this conflict could become rather tense, particularly at times when the Congress tried to enact legislation which would not only have instructed the United States Executive Director to take certain positions on certain commodities, but would have strings upon the money being supplied to the Bank or to IDA from the United States—would have conditioned the subscriptions to Bank capital or to IDA capital by banning its use for defined purposes. We always had to accept that the US Executive Director was free to express any views he wanted and to vote any way he wanted, but we did resist strongly the idea that the provision of money should be conditioned upon us acting or not acting in certain ways. We felt that this was unconstitutional; one way of putting it is to say that it was an attempt to by-pass the voting arrangements in the Bank and IDA which had been carefully designed to establish a certain balance in which countries providing funds could vote in proportion to their contributions. This was regarded as an attempt to override the carefully drawn voting rights provisions, and to assert a unilateral veto by one country even though it was contributing only a minority of the funds. In any event such attempts in the Congress to actually tie strings on the use of US money were eventually rejected but we were left with many instances in which the United States Executive Director voted against loans because of commercial considerations. Interestingly enough, we never had a case in which the United States Executive Director was able to mobilize a majority on
behalf of his position. Now you might say, "Well, the management just bowed to US wishes and didn't even bring controversial loans to the Board so that there were no opportunities for other countries to override the United States." To that I'd only say, "No, I don't think we ever, for those commercial reasons, failed to bring forward a loan which was requested by a country and which emerged from our economic analysis as a suitable productive activity for that country and an effective way for the development of its resources, that is to say an activity in which that country had a comparative advantage."

I've talked about the political area and the commercial area--another one was this difficult area of human rights. Now, of course, it was under the Carter Administration that the human rights issue became so prominent, and in this instance it wasn't only the Congress that was intervening to assert human rights interests but the US Administration itself which sought to inject this issue through their Executive Director in the Bank and through influences that they could bring upon the Bank management. It was a very difficult one for us (the Bank management) to handle. After all, you don't want to be accused of tolerating, or even providing positive support, to obnoxious regimes who are engaged in the suppression of human rights and oppression of their peoples. On the other hand, we felt we were the agent for fostering the development of peoples and not of regimes, and that in the long run, if we hewed to the task of development in the interest of people, the undesirable regimes would come and go. Another way to put it is that we felt it wrong to penalize the people of a country by withholding aid from that country in order to make a point with respect to human rights, and we never had the feeling that withholding aid was going to be a very
effective instrument for forcing the country to change or moderate its human rights policy. So we had many arguments back and forth on this. We were trying to take a stance that was consistent with our general non-political and professional position. Just as we said that we would operate with governments of whatever political color in terms of their political ideology, left, right or center, so we would operate also with countries with whatever human rights policy they had unless, and here was an important exception, unless this abuse of human rights led to a position in which a government, so to speak, lost its legitimacy---let's say lost effective capacity to control the country now and in the future. Now in such cases....

Asher: Were there such cases?

Knapp: Yes. Let me distinguish between the Bank and IDA just to make the further point that if a regime became so unpopular in a country and the Bank continued lending money to it, we felt it quite possible, certainly something we should take into consideration, that successive regimes might denounce the obligations incurred by that government. That would pose a threat to the validity of Bank loans and to the credit of the country. In the case of IDA, one doesn't have the same degree of concern about creditworthiness but also in the case of IDA we didn't want to see IDA credits repudiated because they had been given to a regime that could be accused of having abused the people, misused the proceeds of the loan, etc. Now there were indeed cases. The one that comes immediately to mind is Uganda. We just quit in Uganda during the regime of Idi Amin and I personally had the unhappy duty of explaining to successive Ugandan Ministers of Finance why we had quit. I didn't want to say we had quit because of human rights issues but what I did
say was that we thought that the government was no longer exercising effective control or, perhaps I used the words, would no longer be able to employ funds effectively and put them to productive use. Anyway we did the same in other cases—the case of the Trujillo regime in the Dominican Republic, for example. Equatorial Guinea is another instance. These were rare and exceptional cases where we felt that governments had just put themselves beyond the pale in terms of relationships with their own peoples, and were no longer to be regarded as the legitimate representatives of these peoples.

Asher: And in those cases you did have the support of a majority of the Executive Directors, or didn't you....?

Knapp: Yes we did, although in those cases it simply meant that proposals were never brought forward. One can never understand the way the Bank operates unless one understands a very basic principle which was established by Jack McCloy when he came in as, effectively, the first president of the Bank, namely that no loan proposal can be initiated by the Board—and it follows from that that no loan proposal can be considered by the Board unless the President puts it forward with his recommendation. Indeed, on one occasion the President (I think it was George Woods) put forward a loan proposal, conditions in the country changed, and he withdrew it—and yet some elements in the Board wanted to go ahead with it. The issue was, could he withdraw a proposal once he'd made it, and he insisted that he could and nobody in the end challenged that. So the President's position is very powerful because it is
only he who may initiate a loan proposal.

Here again, as in the case of what I call the commercial interventions, the United States never was able to get a working majority of the Board to support its human rights position but they came a good deal closer than in the commercial interventions, where they were largely isolated. The British and the Scandinavian countries, in particular, showed great sympathy on the human rights issues and at times we had some very close votes in which loans brought to the Board by the management were nearly defeated on just the issue of human rights. I think in the end the reason that there was not a wider mobilization of support for the US position was the recognition that we were and had to be an institution dedicated to the long-term development of peoples, and that to deny assistance to people because of the shortcomings of their government was, in a sense, to deny economic rights to those people. We would be sacrificing economic rights which, after all, are a very important part of human rights, to the cause of preserving political freedoms and the freedom of individuals not to be persecuted by their own governments. So it's all a very difficult issue but I think we came through it very well. Even in the latter period of the Carter Administration and certainly since the change of administration, we have a different atmosphere in which human rights issues are just not very significant in the affairs of the Bank.

Now I have, of course, been talking about the United States and one might talk at length about the attitudes of other countries who also had their axes to grind, particularly when one thinks of the metropolitan countries of Europe--the British and their natural tendency to support the Commonwealth countries; the French with their clientele,
particularly in French-speaking Africa; the Japanese with their own
interest in Asia and, specifically, in Southeast Asia. All these
countries, for one reason or another—I'm returning now to the broad
political aspects of the allocation of IDA assistance—all of these
countries have had axes to grind and interests to represent and some of them
have indeed brought pressures to bear through their Executive Directors
and through other channels.

Asher: Does this include hiring of personnel as well as making loans?

Knapp: Well of course, there have been, if you like, some rivalries
and jealousies and countries naturally want to have their nationals
represented on the staff of the Bank. But I don't really associate
that so much with pressures on the direction of lending activities or
the allocation of loans. I suppose one might think that if you had
more French nationals on the staff of the Bank, there would be more internal
responsiveness to pressures from the French for allocating loans
for French Africa, but I think to pursue that line of thought would
really mistake the international character of the staff of the Bank
and the extent to which the Bank staff regard themselves as international
civil servants and refrain from pressing within the Bank the interests
of their mother country. Furthermore, to a certain extent all these
pressures wash out in the allocation of IDA funds. OK, the Japanese
want more for South Asia, the Americans want more for Latin America,
the French more for French Africa, the British for the Commonwealth.
To a considerable extent, these pressures are all brought to bear but
more or less cancel out. I started by saying that I thought the degree
to which the US as the largest single stockholder had tried to intervene
in the affairs of the Bank has been very modest. I think that could also
be said of the other major powers, that they have by-and-large left it to the Bank to pursue its métier of supporting development in the developing countries without seeking to bring to bear undesirable political pressures.

Asher: Can I ask a question then, which is related to this, about procurement policies of the Bank—procurement only in member countries with the exception of Switzerland. Isn't this a form of political discrimination against Communist sources—that part of the Communist world that isn't in the Bank as members?

Knapp: Well, I think it often is interpreted that way, saying that the World Bank doesn't permit procurement, let's say, in the Soviet Union because of its anti-Communist bias, its capitalist orientation. But there's more to it than that. Procurement by the Bank and IDA is indeed limited to countries that are members of the World Bank---

Asher: ---but not by the Articles of Agreement---

Knapp: That's correct—it's not by the Articles of Agreement but as a matter of policy established in the early days. To that principle, over time, was added the principle that Switzerland would become eligible. Switzerland has never become a member of the Bretton Woods institutions for internal political reasons, but Switzerland has been a very cooperative country and, among other things has bought World Bank bonds and made contributions to IDA. After they commenced to support the institutions financially, they were admitted to the circle of countries where
procurement under Bank and IDA financed projects may be undertaken. So
I would say that this principle has nothing much to do with politics;
it does have something to do with economic interests. It does mean
that the countries that are supporting the World Bank feel it right and
proper to insist that procurement be confined to those providing financial
support. I think in this connection, the Swiss case is very illumina­
ting because Switzerland has never been accused of being a Communist
country; yet they were not eligible for procurement until they began
providing financial support, and after they began providing financial
support, they became eligible. One could attack this whole procurement
principle on the ground that Communist countries could in certain circums­
stances be cheaper sources of supply, and that the Bank's dedication
to efficient and economic administration of projects should lead it
to permit procurement in the cheapest source of supply, whether it's
a member or non-member. I would acknowledge that there is some logic
to such a position but it has, in fact, been overridden by the economic
self-interest of members to confine procurement to themselves.

Asher: Can I move from supplier countries to borrowers? Some of the
Bank's major borrowers are no longer really poor countries. They are sometimes
called "middle income countries". I'm thinking of Portugal, Romania,
Yugoslavia in Europe--Brazil and Mexico in Latin America--Korea and
Malaysia in Asia--perhaps the Ivory Coast in Africa. For how much longer
can such countries expect to be borrowers and how do you view the problem
of graduation from World Bank borrowing to private capital market borrowing
to finance development?

Knapp: Well, of course, we have had a policy of graduation and there is
quite a list of countries which have been graduated as borrowers from the World Bank. The basic principle on which they have been graduated is the Charter provision that the Bank should not engage in operations for which funds would be available on reasonable terms from the private capital markets. On that ground, countries in Europe, for example, countries like Italy, Austria, Finland, Norway, Spain—have been graduated. Over time we’ve reduced the marginal countries to about the list that you mentioned—fairly prosperous, fairly well-advanced, middle-income countries and yet countries that one can hardly say have achieved a satisfactory level of development, either in terms of per capita income or in terms of their institutions and experience and capacity to go-it-alone. They’re not in the same category as the countries that I’ve mentioned that have already been graduated.

It could be argued, I suppose, under the Charter provision, that a country like Mexico or Brazil (who have indeed made huge borrowings far surpassing their operations with the Bank, in the private capital market)—could find the funds necessary to sustain their forward economic progress without leaning on the Bank. I think it would be a somewhat debatable question. There is, however, another way of looking at it which argues that the Bank, as a development institution fostering development in its less-developed member countries, still has an important role to play—an important responsibility to discharge—in member countries that are at the stage of development of say, Mexico or Brazil. Certainly, our experience in working with these countries on project financing would indicate that there is still a great deal the Bank can contribute in the way of institution-building, technical assistance, and non-financial services, and certainly these countries attach a great deal of importance
to that side of their relationships with the Bank. They naturally attach importance, also, to the fact that the Bank is virtually the sole provider of long-term, fixed-interest-rate money to which they have access. The loans that they have obtained from commercial banks are at fluctuating interest rates and at maturities which are not well-suited to long-term development finance. I think it's also interesting to note that the market lenders--basically, the commercial banks--are quite anxious to see the World Bank maintain some activities in these middle-income countries. I think they regard it with some degree of assurance that the Bank has, like the Monetary Fund, remained active in these countries--is not only helping these countries in project preparation and strengthening them in that respect, but is also present in these countries as a force providing good advice on macro-economic matters and even, through the administration of its lending program, bringing pressure on countries to promote a healthier and sounder macro-economic policy. In other words, look at it in terms of creditworthiness. I think that the other market lenders feel that the creditworthiness of these countries is fortified by the presence of the Bank.

Asher: But are there some guidelines and principles that the Loan Committee employs in terms of per capita income, co-financing, progress toward, say, majority of co-financing as compared to Bank financing--other things which enable you to apply a kind of yardstick, or at least not to be accused of discriminating among countries that are reaching the borderline stage?
Knapp: Well, there is a concept and it arises not so much in the Loan Committee actually as in the review of country programs (I earlier distinguished between Loan Committee consideration of projects and the Review Committee review of country programs). In a given case, we might feel that the Bank ought to keep operating in several sectors in a country in order to have a broad front in which to engage in its institution building, technical assistance, etc., but that, in terms of financial commitments, the time has come when the Bank can reduce the level of its operations. There are funds available in the market for co-financing of projects, perhaps also from such sources as export credit institutions. There has been the feeling that the Bank ought to be able to phase back in the volume of its lending while still maintaining a sufficient volume, whatever that is, to have a meaningful relationship and bring meaningful influence to bear on the country. I'll go further to say that I believe that in the last few years the Bank could have moved substantially further in reducing the volume of its financial commitments; and in promoting co-financing of projects, without having sacrificed the role—the non-financial role—that I've described. However that may be, I am quite sure that in the years coming up, the financial restraints on the Bank will be such as to force it to cut back on the volume of lending to its most creditworthy and most advanced developing member countries.

Asher: But as long as you have its most creditworthy and advanced countries as borrowers, the portfolio of the Bank, in one sense, looks stronger to potential lenders.
Knapp: Quite right. I would even say that in some of our internal arguments this point has been made (obviously, it would be made from the side of the people that are most concerned with selling World Bank bonds and the financial structure of the Bank), warning that if we reduce our lending to the best class of borrowers, we're going to see a deterioration of our portfolio with possible consequences for the creditworthiness of the Bank. Well, it's a point but it's not a very effective point—

I mean, if that were so, we should still be lending to Italy and Japan. (I forgot to mention that the Bank used to make loans to Japan).

Let me cite a particular instance about co-financing in Romania. I went out to Romania a couple of times to tell them that they were looking to the Bank for far more money than we were prepared to supply; that we were very happy to go ahead and set up projects for them but that we thought the time had come where there would be an interest in Western capital markets in co-financing of these projects and that we would be putting less money into these projects, and they should be making up the difference by cultivating co-financing. Well, the initial Romanian reaction to this was one of shock and even outrage; they felt that there was no reason why the Bank should be passing off its responsibilities to this Western capital market.

Asher: I suppose that you ought to get it into the record that Romania is a relatively new member—latecomer to the Bank.

Knapp: Right.
Asher: ----arrived in late 1972, I think.

Knapp: Yes. But perhaps they felt, just as a latecomer, that we should give them very special attention. Yet this point has gradually taken hold and in the last year or two there's been a very substantial volume of co-financing. The market was always ready to do it—the question was whether the Romanians were prepared to accept it. There had been general purpose borrowing in the West but that was a rather different thing. The Romanians, with their very strong attachment to the Communist character of their economic organization and activities, found it difficult to accept the idea that Western private capital should be playing a role in the development of their electric power or their irrigation systems or what not. But they've been brought around to it. Take the example of Brazil, where our lending is now at the level of say seven- or eight-hundred million dollars a year. Well, why couldn't we be able to achieve our non-financial objectives in Brazil and, indeed, why shouldn't Brazil be able to get anything it wants out of the Bank in terms of technical assistance and professional advice, with a financial outlay, roughly, of half of that? In any case, I'm sure that's going to happen because of the financial pressures that are going to be coming upon the Bank in the coming years.

Asher: Burke, you mentioned general purpose lending to Romania (not from the Bank, but from other sources). That makes me want to revisit a very old controversy; for most of the thirty years that you've been with the Bank developers have been arguing the relative merits of project
lending versus general purpose or program lending. Maybe everything that can be said on this subject has already been said. Certainly, the original distinction between two quite sharply different approaches to development financing has been blurred by sector lending, by more financing of local currency costs as well as foreign exchange costs, and by the great broadening of the Bank's idea of what constitutes a suitable project for financing. Still, the Bank has never accepted B. K. Nehru's tongue-in-cheek suggestion of twenty years or so ago that the Bank should regard India as a project. The Bank wants to define projects more narrowly than that, although the Bank's sister institution, the Fund, does, in a sense, accept India or other member countries as projects. And the quick-disbursing program loans have been a feature of bilateral programs and of borrowing in the market for a long time. Would you like to discuss the Bank's caution, induced in part by its own Articles of Agreement, but its caution with respect to non-project or program lending?

Knapp: Yes. I'd like very much to comment on that. Not with the expectation that I would bring anything very new to this, as you say, very ancient argument, but to express a view and basically to take a clear side in the argument. I think the project approach, which, as you say, was specified in the Articles which provide that loans shall be for projects except in special or exceptional circumstances—I think that was a wise provision, and that the effectiveness of the Bank in the field of fostering development has been greatly enhanced by its basic insistence that what it was after was to assist countries to carry out specific projects of economic development. This has led to the accumulation in the Bank of an unparalleled staff capacity to assist member countries in this area, and to enable
them through what we call, "institution building" and technical assistance, to derive the maximum advantage out of their investments in the different sectors of development. I think the Bank has a great comparative advantage in this respect. I don't think that national, bilateral programs have it and I don't think that other non-financial institutions have it--I'm thinking, for example, of agencies of the United Nations like the FAO or the WHO. In the field of agricultural techniques, the FAO has tremendous expertise in terms of investment in agriculture, I think the expertise of the Bank is far more highly developed. In any case, even if it didn't have any greater expertise, the fact that the Bank can communicate this technology by attaching conditions to its loans---requiring, so to speak, the acceptance of this technology as a condition of loans--that is something which is far beyond the capacity of an agency like the FAO. So I think all the importance that we've attached to the technical organization in the Bank, and the organization and staffing of our projects departments has been thoroughly justified in terms of increasing our impact upon development in member countries through sticking, by and large, to the project approach.

Now there are one or two incidental benefits from this that I think might be mentioned. The project approach greatly fortifies the creditworthiness of the Bank and the creditworthiness, so to speak, of our projects, and that those projects stand there as manifestations of the investment that's been undertaken, is a very important factor, I think, in getting the country to repay its debts and to observe its obligations. I'll give you two examples which support that thesis. One is in Bangladesh. Before Bangladesh, formerly East Pakistan, became an independent
nation, Pakistan had borrowed a lot of money—in this case from IDA, and some from the Bank too—for investments in their Eastern province. When the separation of powers took place, Pakistan said, "Well, we're no longer responsible for past debts incurred on behalf of Bangladesh." We, naturally, looked to Bangladesh to undertake repayment of the loans that were made for projects in Bangladesh, and Bangladesh readily accepted the principle that where there was an irrigation project or a water supply project or a power project, yes, they held the asset and they should accept responsibility for the liability. But in the course of long negotiations on this matter between the Bank and Bangladesh and Pakistan, Bangladesh was never prepared to accept liability for non-project loans that had been incurred by Pakistan (just general import loans, for example, or balance of payments loans). In the end, we insisted that, to the extent that Bangladesh would not be prepared to accept liability, Pakistan should, and Pakistan finally did.

Now, another very interesting case was that of Taiwan. When Taiwan was displaced from its position in the Bank by the People's Republic, we had loans outstanding there—claims upon Taiwan—of something like $300 million. I played a role in this because when the President of the Bank, Mr. McNamara, was planning his visit to the People's Republic to consolidate our relationship with them and to usher in the new era in which the People's Republic would take up the China seat in the Bank, he asked me to go to Taiwan to explain all this to the Taiwan government. I had to explain that they were shortly going to be removed from their position of controlling the Chinese seat in the World Bank and, just incidentally, that we expected them to continue servicing their
debts to the Bank. Now the debts that had been incurred all related to specific, tangible projects in Taiwan, and I found that by far my most effective argument was simply to say that, "You have the assets and you would be destroying your creditworthiness in the world to disown obligations that you have undertaken for the building of assets in Taiwan."

Asher: There has been a considerable change, though, in the character of the assets from the early infrastructure days to the current financing of agricultural work, educational work, health activities, and so on, and I guess, in a way, you're saying that it is the prestige of the Bank itself rather than really what's contributed to the creditworthiness by the physical asset that---

Knapp: Well, the physical, tangible assets are the most demonstrable and obvious consequence of investments that are undertaken, and providing, so-to-speak, obvious justification for repayment of the loan. Even in the field of education, you have physical assets such as school buildings; you also have the flow of educated children who emerge from a school system and provide an asset to the country. All I'm saying is that if, on the other hand, loans are just made for very general program purposes, to protect the country against adversity, to help to compensate it for changes in its terms of trade, to provide it with very generalized resources to flow into its development activities, you don't establish the same basis for repayment and for creditworthiness. Let me say, I'm not arguing that you shouldn't make program loans because they don't produce physical assets which are going to make a country more willing to repay. This is not an argument against all program lending; but it is a
comment about what has been a favorable, though perhaps inadvertent, consequence of the Bank's project approach.

Asher: But another consequence of the project approach which is, I suppose, not totally advantageous to the Bank and the three countries that you mentioned—Bangladesh, Uganda and Romania—could all be examples of one thing and that is that it takes a long time to get a project through the Bank's machinery and, after that disbursement is slow and, as you said earlier, can run from seven to ten years. When a Bangladesh becomes independent, when a Uganda gets rid of Amin, when a Romania comes into the Bank, it's a long time before they really get any financial benefits that they may need at a very early stage. And that, I guess, is not entirely a blessing as far as your relations with the country are concerned.

Knapp: It's a cost of the project approach that it does take more time to prepare, more time to execute, a much longer period to disburse. That's unquestionably a cost and it has to be weighed against the benefits, but my own judgment is that the benefits far surpass the cost.

But let's talk a little bit more about program lending. Now we've had program lending of various kinds. We've had loans which are designed to support a development program as a whole—that's one form of program lending. We've had program lending for disaster relief. We've had program lending to meet the situation of countries which are strongly and adversely affected by external developments. And the concept of program lending has recently been extended to the so-called structural adjustment lending. The common characteristic of program lending is that it does disburse more quickly and the conditions that
are attached are more of a macro-economic, management-of-the-economy kind than project conditions.

Now, let me declare myself as being skeptical about the Bank (and IDA, for that matter) doing too much program lending. I understand the argument for the Bank making loans to assist a country in making a whole pattern of structural adjustments, particularly structural adjustments to the situation created by the tremendous increase in the price of energy and the fundamental impact that this has had upon countries' balance of payments, resource needs and the structure of their economy. But I'm skeptical, for one thing, about the extent to which the Bank can design and enforce conditions on such lending. I'm just not sure we're always wise enough--I'm sure we're not always wise enough to design these structural adjustment programs and to formulate structural adjustment conditions that are relevant and productive and, even if we were, I'm skeptical about whether countries are in fact going to adhere to these conditions over a period of time and that we will be able to monitor and enforce such conditions. There is no free lunch. This money is all coming out of one pocket, and whatever we do in the way of program lending is at the sacrifice of some project lending on the other side. I'd be inclined to stick with the project lending in which we have a real professional capability and comparative advantage, and engage in program lending only where we very clearly can see and measure the benefits to be obtained and determine that they are greater than could have been obtained by the same investment in projects.

I know that some people argue that macro-economic conditions are more important than project conditions, and that only in connection
with program lending can we successfully negotiate macro-economic conditions. I have never fully accepted this argument and still believe that if we put our minds to it, we ought to be able to attach macro-economic conditions to our country lending programs, even if these consisted entirely of project loans.

I'll confess that I'm sometimes influenced by the spectacle of countries strongly pressing in the direction of getting program funding because they are reluctant to accept the conditions that are placed by the Bank on project lending; or they see that program lending is going to bring money faster and, given their budgetary problems, this is of course an appealing advantage for them rather than waiting for the slow disbursement on project loans. Now the fact that they want money with less conditions or want money faster are not necessarily reasons to condemn program lending. But I still feel that, by-and-large, the conditions on project lending are so productive in themselves in achieving more effective investment of funds, that I would be sorry to see program lending take a much larger proportion of the Bank/IDA resources than it has in the past.

With respect to the Bank, I might add one more comment, which is that the Bank does have to keep in mind the impact of its lending operations upon its capacity to raise money, and its capacity to get money on the best possible terms. I think that most observers and critics of the Bank from the market sources that supply its funds share this feeling about the project approach, and it could be that, if the Bank departs from it too much, there would be unfortunate negative consequences for its capacity to raise money or for the price that it has to pay for
that purpose. After all, the fundamental interest of the Bank's borrowers lies in preserving the Bank's capacity to raise money on the best possible terms.

Asher: But, Burke, IDA doesn't have any bonds whose triple-A rating has to be preserved and, in theory at least, it could be a lot more venturesome than the Bank itself, although there might be some irony in the fact that the soft loan window was so much more experimental than the hard loan one. Do you have any regrets that IDA perhaps didn't have the autonomy that IFC has as an affiliate and the opportunity to experiment without jeopardizing in any way the credit rating of the Bank itself, which does have to be protected?

Knapp: Well, first of all, I was explicitly talking about the Bank in my remarks about the effect on market opinion. In the case of IDA, to a certain extent, the people in the governments that supply contributions to IDA also share in the, if you like, somewhat conservative attitude about what IDA should be doing as between projects and programs. Again, if IDA ventured too far away from the directly productive investment approach, I think that could also have adverse effects on our ability to finance IDA.

You asked a question about whether IDA might not have been more autonomous, more divorced from the Bank, and I think the implication was that the Bank might perhaps have benefited from holding IDA a little more at arms length. For myself, I wouldn't have changed the consolidation of the Bank and IDA with one staff, one president and, essentially, one program. I think, perhaps, what we have failed to do adequately is to convey to the financial markets the total financial independence
of the Bank and IDA. Somebody was remarking to me the other day—
it was kind of an eye-opening remark for me—that the main problem was
that the Bank and IDA had the same Annual Report, and it would be better
if there were a separate report for the Bank and IDA.

Asher: There were, initially, and you decided that wasn't better.
Isn't that true?

Knapp: I think that's right, Bob. I'd forgotten that, really, until
you mentioned it. Well, it seems curious that that should have such
an effect, but if we've stumbled there, and if part of the confusion
between the Bank and IDA as financial entities arises from having a
common annual report, we'd better move quickly in the direction of
separating them again.

Asher: Burke, I know you have another appointment. You've been
very generous with your time. I haven't exhausted my list of questions
but perhaps we'd better think of closing this second installment. Is
there anything, in conclusion, in case we don't get to a third install­
ment, that you'd like to say about your three decades with the Bank
and the satisfactions and the disappointments thereof, or would you
rather let that whole thing go until we get together again?

Knapp: Oh, I think I'd like to let it go if what you're asking me is any---

Asher: ---last Will and Testament---

Knapp: Well, yes. To me, that means some more well-thought-out appraisals
of experience than I think I have to offer at the moment. I would perhaps just like to offer a purely personal remark that I can't imagine any career on which I might have embarked thirty years ago that would have been more satisfying and more rewarding in terms of the experience and the people and the problems than my work in the World Bank. I've had occasion over the years, in many sessions of information programs for new staff, to tell them that they just don't know how lucky they have been to have come through the fine mesh of recruitment procedures and to have become associated with this institution. Thank you very, very much, Bob, for being my interlocutor in these discussions.

Asher: Well, let me thank you again for your informative and articulate performance and add as a personal note, that I think the Bank has been rather lucky to have you as a senior officer for so many years.

Knapp: Thank you very much.