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Transcript of interview with

W. A. WAPENHANS

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By: W. Becker & D. Milobsky
Q: I'm William Becker with George Washington University and the Business History Group.

Q: I'm David Milobsky with The World Bank Historian's Office.

A: And I'm Willi Wapenhans, retired Vice President of The World Bank.

Q: Today in our follow up interview we'd like to turn to the Report, "Effective Implementation, the Key to Development Impact." To begin with, we'd like to explore the origins of the report and the way in which it was prepared. Our first set of questions have to do with the background of the report. How did you get involved in working on the report?

A: That's a rather complex question. I believe the reason Preston asked me to undertake this task has to do with the fact that I refused his offer to become Director General of Operations Evaluation of The World Bank. In discussing that offer, he had suggested that Operations Evaluation in the World Bank needed significant restructuring; in particular, he thought it required a change in the reporting relationship from that to the Board to that to Senior Management. And, secondly, he had tried to understand the Bank's balance sheet, but had failed to do so. All the financial assets were piling up because lending activities remained undiscounted in its balance sheet. Preston felt such a record could not be realistic; normally at least a few rotten apples would be amongst the investments and activities financed. He thus questioned the fact that the financial statements of the Bank could be a fair representation of its financial situation.
As to the offer, after 30 years in the Bank I was not prepared to firmly commit myself for another five years -- in an unwanted assignment. I had no interest in the Operations Evaluation function. Eventually I told Preston if he were to insist I would ask for a mutually agreed separation. I did not agree with his assertion that the financial assets needed discounting; they are not secured by the quality of the investments nor are the financial statements a fair reflection of the Bank’s financial status. The financial assets are secured by guarantees of both lending and borrowing shareholders, and to one hundred percent by subscribed capital. What is measured in our loan assets on our balance sheet is the material and ideal commitment to the idea of the Bank by its shareholders; not the specific value and/or performance of each and every project. However, if he was concerned about the portfolio of projects as distinct from the portfolio of financial assets, then he had a point. There was certainly reason to believe that the portfolio of projects under implementation - as distinct from loan assets - was not necessarily in the best of shape.

Preston then asked whether I was satisfied that we were revealing the full truths of our accomplishments in our financial statements. I replied that I was not; that in fact the Bank was measuring its accomplishments in terms of its financial performance. At the time of Gene Black that was of overriding importance because the financial performance secured our access to the capital markets of the world. However, when McNamara had come on the scene, he had turned the Bank into a development institution; and the development impact could not be measured by the financial performance of the Bank as a lending institution. So what he, Preston had today was a development institution that
continued to present itself in terms of its financial performance. While McNamara had the foresight to begin the process of evaluating the Bank’s effectiveness as a development institution with the creation of the Operations Evaluation Function in the Bank, this had not developed to the point where we were in fact able to measure ourselves in terms of sustainable development, more germane to the mission of the Bank as now defined.

On the reporting relationship I flatly disagreed with Preston. I told him that I thought it absolutely essential to retain, even strengthen the independence of the Operations Evaluation Function from Management to enhance its credibility as an objective source of reporting on outcomes.

We were miles apart and the discussions on these subjects continued for several days. Eventually we agreed that we would part company, and I prepared for my departure from the Bank.

Q: About what time was this?
A: This is now late fall of 1991 that I had agreed that I would resign effective November 1, 1992. Before I left his office, Preston asked me to do one thing for him personally, namely a think piece on how to maintain a high quality work force in the Bank. I suppose he asked me because he knew of my previous association with the personnel management and the human resources development in the Bank as the then Senior Vice President, External Affairs and Administration. He had commissioned some institutional work on the personnel issue at the same time, but he also wanted to have an independent and personal piece of advice as to what was needed to ensure that the Bank had the skills, the judgment and the resolve to renew itself from within. I did this piece and presented it to
him in January 1992. I don't know what became of it. Meanwhile, I had advised him and
the Personnel Department that my date of departure from the Bank would be the 31st of
October, 1992.

Preston left on a trip to Paris in early February, where he met with Ernie Stern. Stern called me from Paris and reported that he had a long discussion with Preston about my refusal to accept the position as the Director General of OED. They had wondered whether I would, as a sort of a final act, be willing to look into the management of our portfolio of projects under implementation. If so, could I please write some Terms of Reference for such a task which we could discuss upon his, Stern's return from Paris. My first question was: "To whom do I report?" And he said "Well, you will report to the President." And I said: "Am I supposed to do this by myself? Or am I going to get some support? How is this to be organized?" And he replied: "Preston said whatever you want, you can have. You can pick your staff. You'll get the budget, whatever you need, we will give to you." I said: "Well, then my third question is, what is the timetable?" And he said: "We were thinking in terms of maybe just before the turn of the fiscal year." I replied: "But that's not possible because I have another task from Preston, I am supposed to represent him at the meeting of the UN-ACC meeting in Geneva in April, and I have a few other on-going commitments which make it simply impossible for me to complete this work by the end of June. Maybe July or early August is a better deadline; I would hope to have it done before the Annual Meeting." So he said: "Well, I can then report to Preston that you are on?" I said: "Subject to us agreeing on the Terms of Reference, yes." So I sat down to write the Terms of Reference. I had hardly put pen to paper when the phone rang
again and Stern said: "I've just sent a fax to my office; they will give it to you momentarily; they are the draft Terms of Reference for your work."

Q: Now, had he drawn those up, would you say? Or Preston?
A: Well, I don't think that Preston had drawn them up, but I think Preston had pretty much told him what he wanted done and Stern had then put this into the Bank's language. It was plausible in the existing institutional setting, and it made the right kind of differentiation between the portfolio of projects and that of financial assets and things of that nature which suggested Ernie Stern's hand in the matter.

Q: Would that be why they didn't do this through normal Bank channels, why they felt there was a need for a special Task Force? What I'm trying to understand is why wouldn't they just give this assignment to OED or one of the other evaluating organizations in the normal Bank structure? Why did they need some sort of a crash program on this?
A: Well, I'm probably not the person to respond to that. I can only speculate on why they chose this design. It probably had to do with several considerations: first, I had been very blunt with Preston in discussing the matter and in insisting on the difference between financial performance and project accomplishment; second, I was known to be very critical of the way in which the Operations Evaluation Department performed its task, not so much in terms of the evaluation of the individual project, but in terms of drawing its operational policy conclusions and reporting its findings. And thirdly, there had been much muted criticism, within and on the outside, of the Bank's performance as a development institution for some time. Much of the criticism was intuitive and lacked hard evidence. So Preston, who had just come to the Bank, had a situation where he wanted an intimately
informed yet operationally sufficiently removed view, not beholden to the institutional power-structure or the OED. I thought he wanted a credible review and recommendations that would be accepted by his three critical constituencies, Operations Evaluation, the operational staff and managers, and then, of course, the Board and the Bank's shareholders. I suppose he felt that he would get an objective and critical yet constructive review from me, since I was no longer directly associated with Operations, no longer, in that sense preoccupied by day-to-day managerial responsibilities.

Q: In Preston first approaching you about this, did you ever get the sense that the Board was in any way interested in this kind of a study as well?

A: Well, this was interesting, because when I asked the question: "Am I reporting to the President?" The answer was yes, to the President, and only to the President. I told Stern at the time that that was fine, but I wanted to be sure that I would have the opportunity to expose my thinking to other managers as we proceeded with this task.

Again, I was assured full access and support from both Preston and Stern. Later on, I also told Preston that I felt bound by this relationship of reporting to him directly, and that I didn't want to share any findings formally with the Executive Directors or anybody else unless he specifically told me to. I considered this a privileged relationship. And I did refrain from interacting with any that would take an interest in this work, such as NGOs and the press. I very much conducted the Task Force work as a special assignment for the President. That will also explain the format and language I chose for the conduct of the inquiry and for the final report, because I wanted to be sure that I could penetrate the thickets of the organization and get a message to the President in a language he could
handle, not over-articulated and at excessive length, that would focus his attention and not cause him to lose interest.

Now, something happened along the way; at a Board meeting one member of the Board asked Preston: "I have heard you have commissioned a Task Force to look at portfolio management. Can we see the Terms of Reference?" Preston said: "Of course, fine. And I'm glad you take an interest, and I'll circulate the Terms of Reference." So he circulated the Terms of Reference to the Board in February or early March, 1992, before I even had my Task Force together. So the Board was aware of this from the beginning. The Board then suggested the Joint Audit Committee should take a closer look at this. Now, here was Preston's Task Force initiative interceding with the normal reporting cycle of the Bank on the so-called ARIS Report -- the annual review of projects under supervision, an annual ritual where the Board supposedly reviewed the health of the Bank's portfolio of projects. I was soon invited to present my approach to the Joint Audit Committee. Again, I went back to Preston and said: "Is this okay?" And he said: "Yes. No holes barred. Just go ahead and tell the Joint Audit Committee what you think." There was a mild attempt of the JAC to introduce its own wishes into the by now final ToRs, easily rebuffed in its closed meeting with me. But this began to condition the Board for matters of supervision and portfolio management as operational policy issues. This event, however, was characteristic of the openness in my relationship with Preston throughout the review. There was not a moment throughout the conduct of this study when either Preston or Stern interfered. I had immediate access to the President; they provided the budgetary resources and let me pick the staff I wanted. I did discuss the composition of the Steering Committee
and the Advisory Council to the Task Force with Stern because I wanted to be sure that I had a platform to confront Managers in the Bank with preliminary findings, in order to get early reactions at various levels. I also wanted to be sure, having served in many different parts of the Bank does not necessarily ensure a comprehensive overview, that I would have feedback from managers and staff continuously preoccupied with operational work. I asked for an Advisory Council to be composed of Rajagopalan, who was then the Vice President-Sector Policy, Robert Picciotto, who was then Head of Program and Budgets and now the Director General-Designate for the Operations Evaluation Department, and Yves Rovani, who was the outgoing Director General of the Evaluation function. Those three formed my Advisory Committee.

Q: Were the Terms of Reference essentially the ones that Stern had drafted? Or a kind of compromise between your own views and that of Stern's?

A: Stern and I didn't negotiate much. I introduced a number of other subjects. His draft was more narrowly administrative in scope; I wasn't so preoccupied with those aspects since I didn't think that was where the problems were. I wanted notions of ownership, of portfolio management at country level to come in there. I introduced a number of different topics, and I didn't have any problems with Preston or Stern. There was not a great deal of negotiations; but the ToRs were modified according to my wishes. In the end, however, the findings we produced defined the form and scope of the inquiry; and everyone concerned was content for that to happen.

Q: Did anyone else help you in choosing the Task Force?

A: I consulted with quite a number of people. Obviously, I spoke with OED,
Picciotto, Rajagopalan, and lots of others. I did not want a large Task Force because I did not want to end up with a management job. I wanted people on the team who knew where the information on the topic was in the Bank. I wanted to have access to experienced operational people -- have some even in my group -- who had the requisite analytical capacity. I wanted the group to be diverse in terms of their response to this challenge.

Above all, I wanted the Task Force to be a compact core group, supported by a variety of consultants who would deal with specific topics that we would identify in the process of our work. In retrospect that worked well. We had quite a number of different consultants, some former World Bank staff, and a variety of opinions. We commissioned a number of studies, initiated discussion and focus groups, and, at one point, came to the question as to how to get outside views. How to get the borrowers' point of view; that of sister institutions' point. How to get the supplying and contracting industry's experience with the World Bank into this analysis? This seemed to me especially important because there are other constituencies of the Bank than just the Bank and the borrowers. When one goes outside to borrowers, or an international group of contractors, one runs a significant risk of creating expectations or of exposing the institution to unjust criticism. To ensure integrity I thought it essential to secure outside views and experience. So, I dispensed with precaution and went to Preston and said to him that I'd come to the conclusion that I needed to hear outside parties: borrowers, suppliers and contractors, and other development finance institutions, both multilateral and bilateral. Of course I could do the review without such interaction, but then the report would be different. If he wanted a clear and untrammeled version, it would help if I could call three international workshops. And,
again, his response was most forthcoming. He said: "Look, if that's your judgment, you want to go ahead and call it." So we called for three international workshops. One workshop was with borrowers. One workshop was with all the major players in the field of extending development finance. Not all of them came, by the way. For instance, what was highly remarkable was that the European Commission refused to attend the workshop. I still don't know why, but they didn't come. Most others came including the EIB. The Japanese were represented, so were the regional development banks, European bilateral agencies, and USAID. They were all there. We also had a third workshop with regional representations of international contracting industries. Here the questions were essentially focused on procurement issue, on the Bank's presence during project implementation, what it was now doing and what it was no longer doing, prevailing contracting habits and their implications.

Q: Did the Task Force itself meet frequently?
A: Yes.

Q: On a regular basis?
A: Yes.

Q: About how frequently?
A: On average, perhaps every second day, but there were periods when they met every day. Sometimes twice a day.

Q: How did the process work by which evidence was accumulated? Did Task Force members have prepared reports, memoranda?
A: First, of course, there was an interpretation of the Terms of Reference, as you
would expect. Then there was a fair amount of stock-taking. Let me back track to the interpretation of the Terms of Reference. I think that is perhaps of some interest. When you take the Terms of Reference and you compare them to the final report, you could say that the Terms of Reference were met, but the report clearly has a very different emphasis from that which you would surmise from a first reading of the ToRs. The emphasis changed dramatically as we proceeded with taking the evidence. That wasn't the original intent; but it clearly began to emerge that we were still too preoccupied with the administrative processes of portfolio management, with the Bank's rules and regulations while missing the substance of portfolio management -- the emphasis being on management as distinct from administering a portfolio -- and, therefore, we had to shift the emphasis and thus produced a very distinct final outcome.

The stock-taking was a revelation in itself because it emerged that the Bank had been and was in the process of doing far-reaching, very interesting, very challenging analyses regarding portfolio management. It wasn't that these issues had not been looked at. They had been and were being looked at. Hardly any relevant areas were left where the Task Force needed to probe in depth; much of the topic had been the subject of pretty sophisticated and far-reaching internal analysis. We were fortunate in finding such a profound stock of analytical as well as current operational information available. But -- if all that knowledge was there, why didn't management and/or the Board use it? We obviously needed to address this, through a distinctly different set of questions too.

Second, when we looked at this information, it appeared that common wisdom and common perceptions in the Bank seemed to be quite inconsistent with what these analyses
revealed. For instance, discontinuity of staff in supervision was one of those perceptions. Decline in technical skills in the Bank for supervision was another one. We began to zero in on those inconsistencies and or deficits in analysis. We did quite a bit of extra work, commissioned a number of different studies. For instance, with all the field offices, we did an internet survey from Headquarters for which we used a computer-based all-in-one survey technique to obtain instantaneous results. Yes, we gathered additional supporting evidence. When we came to the question of staff deployment, and there I asked dispensation from Bilsel Alisbah to access personnel files, not to identify individuals and their performance, but to establish assignment patterns, continuity in post, specifics of skill mix, to make the issue of staff deployment more transparent. We found lots of financial analysts doing supervision. But, when we looked closer to find out what was behind the job title, it turned out that many of those staffers never had any training whatsoever in financial analysis. Because there were open positions in the staffing plans, redundant economists were told that they were now financial analysts and as such they were sent on supervision missions. In the formal documentation of accounting for staff use they appeared as financial analysts assigned to supervision. These kind of patterns we could only establish by accessing personnel files. That in turn allowed us to draw certain conclusions with regard to staff management and its implications for supervision. Importantly, it allowed us to draw the conclusion that official categorizations of staff are not necessarily very revealing; and, the question of skills mix is more complicated than usually perceived in the Bank. Therefore, there is a danger of drawing conclusions on staffing needs a bit too lightheartedly and that is what the organization had unfortunately
done in the past.

Third, in interpreting the Terms of Reference, I had also taken another look at the Articles of Agreement of the Bank. I concluded that our practice of portfolio management essentially consisted of four component parts of which only two were mandated. The first, was that the Bank had to ensure, and report on, the prudent use of the resources it extended in accordance with the Articles of Agreements, i.e. strictly supervision. The second part, was a mandate the Bank detailed for itself every time it entered into a loan contract, i.e. surveillance of compliance with contract. Under the loan contract, the Bank established a number of conditions designed to ensure the expected outcome of the project. This way the Bank discharges its obligation of due diligence under the Articles. So there is a second mandatory requirement arising from the Articles. In practice there are two more parts to supervision voluntarily extended by the Bank: first, facilitating the implementation of projects by further interpreting and explaining to borrowers and their agents the meaning of the Articles, the loan and project contract, the General Conditions, and the Bank's policies relevant to the type of project involved. This is important because one can't expect borrowers to have instant understanding of what is involved in using Bank resources to their best advantage. This facilitating role is a most helpful role for the Bank to play. The fourth, and that's the most difficult one, is the question of the extension of substantive technical assistance. Increasingly, managers were saying, if they only had enough staff to extend technical assistance their portfolios would not be in the mess they were in. This was a loud and prominent call throughout the institution and I began to suspect that there was something phony about this. Our encounter with the borrowers at the workshop
should confirm my suspicion. Technical assistance is being extended whether it is wanted or not; staff enforce a contract by offering advice even when their qualification is in doubt. That is a highly problematic approach of the Bank and seriously questioned by the borrowers. In the first instance, the Bank is not necessarily the best source of technical assistance, in the second instance, under the guise of technical assistance the Bank may readily stand inclined to call the shots, and thirdly, it creates a situation in which the owner disowns the project, loses interest and commitment, or worse, blames the Bank for failure, perhaps even rightly so. The Bank, of course, accepts no liability even if the technical assistance extended turns out to be deficient. In the fourth instance, and rather importantly, one cannot expect that the Bank will -- or could -- provide the kind of staff continuity technical assistance requires. Alarmed by the borrowers workshop, we began to focus fairly sharply on this question of extending technical assistance as part of portfolio management and project implementation.

I was concerned about potential implications of this in terms of the Bank's liability; it seemed we were sailing rather close to troublesome legal shores. That's why I retained the former General Counsel of the World Bank, Lester Nurick, and asked him to help in sorting out conceptually what this might entail for the Bank, in terms of contractual arrangements for future commitments, in terms of legal liability and moral or ethical commitments inherent in freely offering and then enforcing advice. If, in fact, the Bank is calling the shots and makes the decisions, did it create a contingent liability for itself, even if not enforceable it is nevertheless there and difficult to deny. Increasingly, borrowers asserted that these are no longer theirs but World Bank's projects. The Task Force began to
I understand that there were portfolios where 70-80 percent of the projects were problem projects, and had been problem projects for an extended period of time; and the Bank was still extending further loans and credits into such sinkholes. One of these days, those governments could turn around and say: "Sorry, these are your projects and you ran us into this mess." If that happened the Bank would definitely have a major problem of explanation on its hands, not because those countries would abdicate their privileges as shareholders, but because they might question their responsibilities as borrowers.

I didn't want to make a distinction between the Bank and IDA as far as portfolio management was concerned. There was a temptation to do that; to treat IDA countries with a lighter, more indulgent touch. It didn't seem to me that it was the wise thing to do because the principles of due diligence applied to both. More importantly, the poorer countries could even less afford to waste concessional resources and the Bank had no excuse to look the other way. The fact was, and I presume still is, that the project portfolio is badly afflicted more often in IDA than in World Bank countries. So Lester had to deal with the issue of the Bank's mandatory and voluntary roles in project implementation, its choices and their implications.

We had another study commissioned. I brought in a former Director General of OED, Marvin Weiner, and asked him to give me his views on the role and relative autonomy of the Operations Evaluation function, and its preoccupation with sustainability. We also had a piece done on the use of office technology in the interaction between the Bank and the borrower, in management of project implementation and progress reporting. We had a very detailed study on supervision work-flow within the institution. We had a
fairly detailed review of Bank rules and regulations for supervision; we found there were
more rules on supervision than there were weeks in a year. It was mind-boggling to learn
what an individual staffer needed to know before he went on a supervision mission. They
were all concerned to protect themselves by making sure that they had adhered to each and
every prescript, never mind the project. We were beginning to see attributes of an aging
bureaucracy. So we also looked into those things which previous efforts at review had, not
intentionally, but because of the way they were conducted, left out. But I should repeat
that the basic information on the status of the health -- or the affliction -- of the portfolio
was already available. Validating information to draw conclusions was a different matter.

Q: Let's get back into the working of the Task Force. What did each member of the
Task Force contribute to the final product, or, if you would like to single out a few
members for their important contributions?

A: Each and every member of the Task Force, of course, was in on everything, but
there was a fair amount of division of labor in the analytical stage. There was Joanne
Salop who had been teamed up with a consultant, a former senior economist of the Bank,
Herman van der Tak, to do work on economic evaluation criteria for both, project appraisal
and monitoring of implementation; i.e. in terms of the articulation of a project as object of
a partial analysis, and in terms of risk-based performance indicators by which progress and
potential should be measured during implementation. The general idea was that, even in
supervision one needs to be selective; one does not monitor across the board, but
selectively those aspects of the project which account for, say, about 75-80 percent of risks
affecting the project. So, risk analysis of major and critical components during
implementation; that was pretty novel. It would require identification of critical variables and the design of specific monitoring criteria against them, prior to approval of the project. By using the same indicators as principal determinants for the conceptual articulation, formulation and preparation, and also for monitoring of project implementation, objectivity would be ensured and subsequent changing of guardposts avoided. In the annexes to the report, one can find specific work relating to these objectives. Most of it came out of Joanne Salop's contributions.

Dominique Lallement was much involved in developing the statistical profiles around the health of project portfolios, by sectors, countries, regions and organizational units. She also did additional analyses with regard to personnel and staff deployment questions, such as staff continuity in supervision, skills mix deployed, and so on.

Michel Pommier, did a great deal of work on trying to relate project performance to broader, macroeconomic circumstances. For instance, the fiscal constraints, the behavior of interest rates, trade issues, and so on, and their impact on implementation performance. Relating portfolio performance to those broad macroeconomic indicators gave us a clear insight that to a large extent, much of the decline in portfolio performance could be attributed to adverse macroeconomic conditions and circumstances.

When we first took up this issue, I said, So what? We have had adverse macroeconomic conditions globally for the last fifteen years, and what have we done? We've allowed those portfolios to grow without specifically designing against macroeconomic risks. If over fifteen years fiscal constraints prevailed, and no corrective action occurred, then, however good performance monitoring might be, it doesn't do any
good. There's something missing. One would have to conclude that managerial action had been missing to ensure that, if there is a persisting fiscal constraint impacting on implementation performance, the fiscal absorptive capacity would not continue to be overstretched, just to ensure high levels of commitment; the obvious lesson being that over-commitment can have a severe negative impact on implementation performance.

I had two colleagues in my Secretariat, Ian Scott and Peter Richardson. They served as the devil's advocates. Ian Scott deputized for me in my absence, and Peter Richardson acted as a principal counselor and co-author. As members of the Task Force produced their papers, they would be reviewed and discussed in session. Peter Richardson and I we would go over final drafts and begin to integrate them into the broad design we had sketched out, after some failed early starts, for the final report. The final draft of the principal report, however, was my responsibility, with Peter Richardson as my principal associate. As we went into the final sessions with the Task Force we often had as many dissenting views as there were members. But we did not, nor did we have time, to go back to the drawing board. Instead, we had a series of very good brainstorming sessions during which the various views were thoroughly discussed; that cleared the minds and on most issues produced consensus. Now, there is an important step I missed that I need to record. In the annex to the report there is a table of the members of the Steering Committee. The Steering Committee were a selection of Directors, Department Heads, most of whom but not all came from Operating Departments; there must have been a total of maybe fifteen, or twenty. I met with this committee from time to time and posed specific issues to them. We had an early draft in May or June '92, where the hard-hitting findings first emerged.
The Task Force had put together about 56 recommendations attached to this early draft. It was devastating. So I said to my associates on the Task Force let’s have a retreat with our Steering Committee. And we went and met for three-quarters of a day with the Steering Committee on this early draft. They were shocked. As we went into the discussions, the members of the Steering Committee proceeded to relate anecdotal information from their own experience that made the picture even bleaker.

Q: Why were people surprised if, as you say, so much of this information had come from within the Bank already?

A: Well, not only the people within the Bank were surprised. Much of this information was indeed available to the Board. But the way it was presented was starkly different. There are recommendations in the report that have to do with the incentive culture of the organization. If achievement is measured in terms of financial performance then, of course, success is measured in terms of piling up yielding assets. When the biggest success experience for the organization in the entire fiscal year is the release to the press of an Annual Report with yet another record year of new loan and credit commitments, another record year of net surpluses, and record allocations to reserves. That made for welcome news and reassuring publicity. That conditions the home arena, for Board members and their superiors, for those who sell the Bank’s bonds, and for those who procure taxpayers money in support of the institution. Not a negligible constituency that deserves some attention. So, the focus continued to be on adding financial assets through new commitments, all under the heading of being a development institution. Of course, there was the concern about being confronted in the process of supervision and/or
operations evaluation with the fact that many of the projects these assets supported were not performing at all well. In response, the staff asked for more technical assistance and more supplementary finance to help project implementation along, at times even if the project had lost its original validity. Here again was the mentality of "securing your rear end" rather than focusing on the real issue of development. Cutting losses was not a welcome option, neither in the Bank nor in the country concerned. So, without changing the incentive structure, it will not be possible to change the focus of the organization in the utilization of existing commitments, and the efficient and sustainable use of projects already in place. This came out of these various bits and pieces of analysis. These pieces had not been brought together for managers into a broad picture painted in the stark colors a specific country situation demanded. Individual managers, especially of technical operations staff, were in a position to say, "Oh, yeah, that's happening over there, but not in my sector." That was one part of it.

The second part of it was that the reporting on project performance traditionally occurred in terms of sectors. In sectoral reporting one could use a broad brush and global stroke; it was not brought home in terms of what was happening to the portfolio of projects in a particular country. For instance, there was the general expectation that difficult sectors such as agriculture or education would perform less well. That was generally true, but it was by no means the whole story. In a particular country, was bad implementation performance really limited to one sector or did one face a much more systemic problem of limited absorptive capacity? The Board was getting portfolio information, as well as related and often rather detailed information in a cross-country sectoral context. Of course,
there was no ill intent. The Bank's operational policies and its organization in the past had been based on sectors. Indeed, the traditional organization of operational staff in the bank had left a strong sectoral bias. So, on matters of supervision the focus had remained sectoral. The various reorganizations had left project supervision alone: for countries only commitments counted; only for sectors did implementation matter. Of course, the framework for implementation is a country with its specific enabling environment of policies, institutions, rules and regulations. Performance analysis based on global sectoral data not only invited, but also allowed, the audience to ignore the problems persisting at country level. I think that's what happened. At any rate, that let the Task Force to recommend to consider portfolio performance and portfolio management foremost as a country issue, and not only as sector and project problems to be left to sectoral specialist to sort out.

Q: Now, you say the Steering Committee was very surprised, or "devastated" I think was the word that you put into the record here. Let me ask some questions about others in the Bank and the Task Force's relationship and interactions with others in the Bank. In any large institution there must be rumors if something as important as this is going on. What were the attitudes within the Bank about what you and the Task Force were doing?

A: I didn't make it my business to find out and I'm not really aware of the kind of rumors that may have been around. And if I had been, I would have ignored those at any rate. It is perhaps worth mentioning that I made my rounds with all the senior operational managers in the Bank, at the beginning and once we began to have conclusions we could discuss with them.
Q: This would have been before May, at the time you had the meeting with the Steering Committee?

A: I went around fairly early on advising them of the Terms of Reference, of what I was doing, and how I was going about this. This was after May.

Q: Meeting with the Steering Committee?

A: I met the Steering Committee first. But the retreat I referred to, I think, was the third meeting with the Steering Committee. After that I went again to all the Regional Vice Presidents. I also went to the Finance Complex because we were beginning to draw conclusions that carried implications for the Finance Complex and not only budgetary implications. I shared with them the potential concerns I saw emerging from this report for the finances of the bank, especially those relating to the future growth of financial assets, the relationship of commitments to disbursements and the implications for liquidity management. With only one exception, the Regional Vice Presidents also added anecdotal information, essentially supporting what we'd found so far. We had initiated a number of focus groups where Task Force members were discussing specific issues with staff concerned such as staff continuity, beneficiary participation in project design and implementation. In the process something unexpected happened. I and most members of the Task Force -- there weren't that many -- had a constant stream of staff coming in and offering to share their concerns about project preparation, appraisal and supervision practices with us. So there was an upsurge, an unburdening on the part of old hands, engineers, old staffers, people with whom I'd worked together twenty years ago in the trenches, coming up and saying: "Look, I know you are doing this. I want you to know
They weren't turning on their managers, that wasn't the principal motive. But certain practices had changed such as the role of consultants in supervision of civil works, local procurement practices--already in use in specific circumstances; thinly disguised and potentially abusive manipulations; all kinds of perceived risks the Bank was running if these practices remained unchallenged. Lots of voluntary contributions were offered. We had neither the time nor the inclination to pursue all but the most disturbing of these concerns. The Task Force report may indeed have left uncovered certain areas potentially of significant concern to certain people in the Bank and outside. What emerged, not only from staff but from middle management as well, was a sense of relief that implementation was on the agenda and could be talked about. Towards the end of the Task Force deliberations, during the months of August and September, there was a fairly freewheeling discussion of the issues of portfolio management throughout the Bank. Indeed, the very term had not been generally in use before then in the context of supervision.

I had fallen rather seriously ill in early July, so there was a pause and we missed our first deadline of a final report by end-July. By the end of July or early August we had a second revised and by now much matured draft. I took that version to Ernie Stern and said to him: "I don't want to give this draft to Preston yet, but you as the Chairman of the Loan Committee ought to let me have your views. I also think it is time for you to call the Regional Vice Presidents in and have them say their piece about this report because it is potentially a pretty tough report for them to accept." He called me back the next day and said: "Don't change a word, I think this is a report the Bank needs." So he called three
successive meetings with the Regional Vice Presidents, the Managing Directors, people such as Johannes Linn from the Financial Complex, in as much as they had responsibilities arising from this topic. There were three days of discussion. I think that there was one lonely voice that argued for moderation in the tone of the report. All the others encouraged us to be even more questioning. I had made it very clear at the outset of this series of meetings that we were listening to their reactions, but that this would remain the Task Force's report. It was not going to be an institutionalized report. We didn't seek or accept clearance but we would amend in the light of relevant commentary. Thereafter, and in accordance with Preston's wishes, there were several sessions with the Joint Audit Committee at which I gave oral statements. They were recorded and circulated to the Board; some members sent the oral statement to their governments at this stage. Something else happened: an unfortunate leak had occurred in the process. Somewhere along the line, and prior to the Environmental Summit Meeting in Rio de Janeiro, a draft version of the report was leaked to an environmental NGO in Great Britain. That NGO apparently played the draft into the hands of The Guardian. The Guardian came out with a pretty devastating article about wasteful lending by the Bank a fortnight before the Summit Meeting in Rio de Janeiro. At the meeting Preston was promptly asked about it. Since it was still a draft not yet submitted to him he could say: "I don't yet know anything about its contents and I don't want to speculate about it." The mischievous design apparently had been for the NGOs to leak this in a manner so that they wouldn't be identified with the leak, but that they would use the publicity generated to assert that the Bank was no longer the credible, reliable institution to be entrusted with large sums of additional financing for
environmental purposes. In their view those funds now had to go a different route. It was pretty obvious as to the way in which they wanted them to go. But that backfired.

Q: How did it backfire?
A: The Summit just simply took no note of it. The major participants were in no mood to commit major support to this environmental initiative. And whatever they were willing to contribute was to be administered by the Bank. When the Joint Audit Committee circulated the transcript of my oral statement, it was almost verbatim repeated in an article in another U.K. newspaper. I don't know where the leaks were in the Bank. Again, I didn't make it my business to find out. I was immediately approached by a number of journalists and others; but I refused to be interviewed on the issue, except confirming that the Task Force was working on it. Following the meetings with the Regional Vice Presidents and other Senior Managers but before the Annual Meetings of '92, we completed the report and made it available to Preston on the eve of the Annual Meeting. I pushed hard in the last several months because I wanted him to be in possession of the final report before the Annual Meeting. I wanted him to be able to say, I have it, I know what it says; but I haven't dealt with it yet. I did not want him to say, Yeah, those are rumors. I can't deal with them.

It was pretty obvious that the Annual Meeting in '92 would begin to raise issues around portfolio management by the Bank. And, it did, quite extensively.

Q: Now, when Preston finally got to read the report, what was his reaction to it?
A: He read it fairly promptly and I then had half a day with him, one on one, on the report.

Q: Would this be mid-September?
A: No. This was after the Annual Meeting, probably around early October. He inquired about certain parts of the report, certain use of language here and there, but he did not ask for any changes or anything of that nature. He simply said: "What do you want me to do?" And I said: "Well, it seemed to me that certain parts of the report could be implemented forthwith." Other parts he clearly wanted to have more time to think about and get additional information on further work to be done. Those areas we had identified. This was obviously not the kind of situation where you issue instructions and off you go; this required continuous, painstaking efforts and participation on the part of all--the Board, Management, all managers, and the staff. To a very large extent, whatever instructions he might issue, it wouldn't help unless he continuously and personally emitted the signal that he was serious. I emphasized with Preston that he personally had to do two things: a) every time a country strategy paper was before him, he should open the discussion by asking the country manager responsible about the status of the country portfolio. That very simple question had never been asked. Once the President started asking that question this institution would respond; and b) the second thing the President needed to do was, since he had to report to the Board once a year on the State of the Union, when the Board started asking questions about the project portfolio, he should turn to the Regional Vice President concerned. This was never the case in the past when the sector or the central operating staffs were made to respond, not the operational managers whose responsibility it was to see to it that the portfolio was in good health and staying that way. So, that he could do forthwith. For the rest of it, it would require a cultural change within the organization; and that could not be done overnight. Preston also said that he had made a commitment, I
forgot to mention that earlier on, in response to an intervention on the part of a Board member during an earlier Board meetings to share the report with the Board. So he said: "Well, yeah, we'll have to give this one to the Board forthwith. I hope you will be around to answer questions at the Board." That was it. He then spent a whole afternoon going through the report with me, page by page and with great interest. He took the time and the trouble and I could not possibly complain about lack of concern on his part. Indeed, I had the feeling that in the process he was building a personal commitment to make this issue an important part of his presidency and to getting this one right. At the end I was asked to make myself available as a consultant for another three months to respond to the JAC and the Board at their formal meetings.

Q: You said the President had committed to turning the report over to the Board. What was the Board's response?

A: I chaired two briefings of Board members prior to the first formal Board meeting on the subject. The initial reaction during the briefing was: "We always thought so; how come the management didn't tell us?" That was answered fairly readily: "Yes, you were right to have thought so, but you were told. There is not a single number in this report that you, the Board couldn't know before this report ever reached you." Questions on personnel also had the members of the Board pretty embarrassed. They didn't like it at all, but they were told that this information had been available to them even when they decided to cut personnel. The report and the briefings contributed towards creating a Board resolve: "This is serious. We have to see to it that the Task Force recommendations get implemented."
There was a second group of Executive Directors who had a different concern: "This is likely to reduce commitment volume because if we apply these kinds of criteria, and if the project portfolio is under pressure then we shouldn't lend, or at least we will find ourselves reducing lending. We will have to accept that commitment volumes, and with that net transfers may decline. Is that what we are about?"

The question arose whether a declining commitment volume would reduce disbursements and in turn would put further downward pressure on net transfers. In the then prevailing situation of many developing countries, wasn't net transfer a most, a more important preoccupation? The response was that that did not follow automatically; the decline in commitment volume need not cause an immediate decline in disbursements. In fact, the opposite might happen if a low level of absorptive capacity had been overstretched by excessive levels of commitment. At a lower level of absorption there might be adequate counterpart funds to maintain or even enhance disbursement of existing commitments; there might be enough institutional and administrative capacity to handle the multitude of projects still waiting to be implemented. If that happened, then, at least temporarily, there was no reason to fear that net transfers would be unduly reduced. Furthermore, if in the process portfolio performance were to improve, commitments could again resume. We were quite conscious that this argument could be made over the whole universe of borrowers. In individual countries, however, these favorable sequences might not emerge. We knew that there were a number of portfolios, country portfolios, where in fact that would be the case. Most importantly, it would hit especially hard in a significant number of African countries. This was, to a large extent, an African problem, and more of
an IDA than a Bank problem, though portfolio problems were also present in countries borrowing from the Bank only, such as Brazil.

What was the alternative? Continuing to aim at high levels of net transfers would mean more and more lending for less and less good reasons; increasingly engaging the instrument of structural adjustment lending because of declining implementation performance of existing project portfolios; increasingly getting the Bank into a situation of fostering a kind of welfare operation, a perpetual balance of payments bail-out essentially benefitting those in poor countries with high levels of foreign exchange consumption. For this, the Bank as a development institution did not seem to have a mandate. So the Task Force report faced the Bank with a clear choice. Especially, the Scandinavians kept on arguing that the Bank and the IMF needed to be concerned with maintaining a positive level of net transfers. But in the Board briefings they were pretty much alone. Not even the Part II borrowing countries echoed that theme. In fact, Board members representing Part II countries found themselves placated by the results of the earlier borrowers workshop. In the workshop, the borrowers had made it very clear that the institution was saddling them with experimental and risky projects they did not really want; and, the Bank was not sharing in the risks. That had to stop. I don't know whether you've ever read the full transcript of the minutes of the workshop; they are available -- about 400 or 600 pages. For the Task Force report we only had a synopsis done.

The Board's formal reaction was one of overwhelming endorsement of the Task Force recommendations and insistence that Management would not dilute them. The Board asked for an action program for the implementation of the Task Force recommendations.
Q: Were there other significant responses in the Board, staff, or other parts of Management?

A: Not in terms of broad-based group responses within the Bank, although there were individual people who responded, yes. The other notable response was that of the informed public, the outside constituencies. The insiders, clearly, were holding their breaths: what was Management going to do? There was fairly widespread cynicism amongst the staff, saying: "We agree with this a hundred percent, but this institution will never implement the report." (In a sense they were right: the report has to this day never been formally released or published.) When I had gone to Preston with the report, I had told him that he needed to be seen to be personally interested in the matter because otherwise this exercise could become counterproductive.

Q: At this point we would like to turn to the report itself and ask some questions about it. Are the problems with the projects a short-lived phenomenon, or are they fundamental to the way in which the Bank has evolved?

A: I would not characterize them as fundamental to the way in which the Bank has evolved. No. Nor would I say they are all that short-lived. Nothing in what we do, in terms of investing in projects, is short-lived. Now we have a performance picture of a project portfolio from 1978-81 to 1988-91; that is a ten-year perspective. It does not reflect the whole range of decisions made before nor those of the latter part of the '80s and early '90s. These are not yet on the screen. I would expect that for quite a number of the project portfolios approved in the later part and after that period, we will still find similar patterns, or even worse. Habits and practices do not change that fast nor will portfolios be cleaned
up brutally. That's one point.

The second point is that, if one were to succeed in establishing sufficient discipline amongst the borrowers and the staff to deal more decisively with problem projects, one would lick half the problem. A fairly large chunk of those problems results from the fact that neither the Bank staff nor the borrowers deal with emerging problems promptly or decisively. The instruments for doing so are in place: changing the project design, providing supplementary funding, aborting it and canceling the remainder of the loan and/or credit.

Q: Could it fall as equally on those two groups? Or would you say it's one over the other?

A: That is a pertinent question we raised with borrowers in the workshop. They said: "Look, you have to put yourself in our position. We cannot be seen to abort a project, but we very often encouraged your staff to put a condition in the loan agreement that would allow the staff to press the button if things went off the rail; we must rely on you to do so and for us to accept that, because we are in a vulnerable situation, as administrators of implementing agencies. We can readily be accused of depriving our own countries of resources." So, here again, we find a "copping out" posture on the part of the borrower; very understandable as it probably reflects reality; yet difficult to deal with. It suggests the Bank needs to deal firmly, yet with empathy, with marginal project performance. At the same time, and this is an important point in the report, the Bank should not substitute for the borrower's responsibility to take prudent decisions.

Now, the other dimension, in response to your question, clearly has to do with what
is appropriate for this organization as a development institution to accept in terms of risks. The worst consequence of this report would be if it were to create a risk-averse organizational culture. I hope that Management, and I've said that on so many occasions, is aware of the fact that risk aversion is not what is needed. It is a question of prudent balance. If staff go forward with a project and it gets stuck in implementation, that should not be seen as a shameful or blameful case. It only becomes one if, once stuck, no corrective action is promptly taken. That's what we were trying to get across. The danger is that changes in implementation procedures and incentive systems now under consideration may promote an organizational culture of risk aversion and diminished accountability. If that turns out to be the case, then there needs to be corrective action -- and promptly taken. If that does not happen, that's where I think fundamental damage could result, difficult to repair later.

Q: Since the publication of the report, the condition of the world economy continues to worsen. How important is the deterioration in project performance attributable to the general slow-down in the international economy?

A: Well, overwhelming. But as I said before, you can say that non-performance in terms of implementation is a result of adverse macro economic developments. But that doesn't deal with the question as to what you do then. Having realized that economic developments are overwhelming determinants of project success; if they cause failure, and one can't change the environment, one may have to abort the project. Now, that doesn't necessarily mean that you kill the patient, but the gangrene leg may have to come off. And that's why I think an active management of the portfolio at country level is absolutely
essential. Now, the Management in its response has gone one step further--and this is why I alluded to this question of risk aversion--it has now said: "We want a robust portfolio and therefore we will test the robustness of the projects also against trading shocks and other external events of that nature related to potential changes in the macroeconomic environment and their implications for project success."

I hope this additional test will not go too far. It should not scare people to the point where they will no longer plant rubber trees, raise beef, mine copper, or whatever else they do to produce primary commodities since these are especially exposed to cyclical terms of trade changes. Obviously, it stands to reason that investing in the copper mines of Zambia is economically foolish since other mines are more competitive and new technologies including recycling of copper already satisfy an increasing share of demand. There is no prospect for sustained recovery of the terms of trade for copper for a long time to come.

We should be even more conscious of terms of trade cycles and put less faith into stabilization schemes often of European origin such as STABEX and SYSMIN. Analyzing implications of the global framework conditions, including terms of trade trends for project success, may prevent some failures. More importantly, it may cause action to be taken if and when they threaten.

Q: You mentioned making some judgments about projects and so on. Do you think that some of the review teams have been perhaps overly subjective in their judgment of projects? And how does one bring consistency into the standards of evidence used to make judgments about projects?

A: When you say "review teams," you mean appraisal missions?
Q: Yes.

A: The problem of judgment I would rephrase in terms of 'ability to discount'. The appraisal criteria used, which could undoubtedly be improved upon, depend on judgments made by individuals regarding basic assumptions. What kind of yields are obtainable? What kind of losses must be expected? A drinking water supply system may suffer illegal use or significant leakage for failure of maintenance; ultimately the revenue take is dependent on how much water is delivered to those who pay, and on the tariff. Or, irrigated cotton: research results of yield of a new cotton variety may be impressive, but when cultivated under large-scale practical field condition, and 100,000 farmers are planting and tending it, the results may be very different. To what extent must research results be discounted to get a realistic approximation of yields to be expected? This process of discounting is highly dependent upon people and their experience. It is a complex matter of judgments; analytical manipulation, of which we do plenty, may refine it, but that initial judgment based on long-standing practical experience the Bank is beginning to lack. It isn't that it does not have technical skills. The Bank has still a large pool of technical skills amongst its staff. But the technical skills become less and less experienced - because of recruitment practices; they become more and more academic, abstract, and specialized as the Bank hires younger staff with more highly specialized training. The reality check is what's missing in the appraisal assessments. No matter how perfect the criteria, if fed the wrong basic data the results will be misleading. That's why I feel that to a considerable extent the Bank can cure this problem only by changing its personnel policies. I have nothing against young professionals. They are a tremendous
core in the Bank and by far the most intellectual part of the establishment. But their professional experience is very much World Bank internal experience; increasingly we recruit and we promote in their mold; and we need to be conscious that even smart people are designing, recommending and promoting in their own image. We must always realize that there are a hundred thousand farmers out there, defining project success through their deeds, who do not have the background and the IQ of young professionals in the Bank. Therefore, it is very important that the right mix of skills and experience is deployed, that the Bank does not become incestuous, that it keeps open to real life, practical exposure and experience.

Q: I think you might have just answered my next question, but I'll ask it anyway. There are many reasons for the problems outlined in the report. Too many economists, not enough technical people, too much bureaucracy, the Bank is not "hands-on." But, is there a single most important problem that, if corrected, would go a long way towards solving the problems outlined in the report?

A: Well, as I said, there are two things. One is preventive, and I would still think that prevention is a very large part of the solution for the future. That has to do with ensuring that you get projects into the portfolio that are prepared and owned by the borrower, and that are subjected to, can we use that phrase again, "adequate reality checks," realistic appraisals. That requires that you have staff capable of administering that reality check. In terms of the curative aspect which, in a sense, tends to deal with a shorter term problem, I think there are limits to what you can achieve through supervision, but you can obviously achieve a lot through a much more insistent discipline in dealing with problem projects.
Don't let them fester. Deal with them. Whatever it may entail. I'm not one who would automatically call for cancellation at all times. But deal with them either in terms of modification or, as a matter of last resort, in terms of cancellation, but don't let four or five years pass and then let the closing date gently take care of the problem. While nobody gets blamed that way it is a costly strategy.

Q: Speaking of problem projects, I want to turn this around just slightly, and we'll cover it in a slightly different way. Isn't it that perhaps projects are over-designed and too complex in the first place? That they don't reflect very well the needs of the people on the site? And, if that's the case, what's the source of that problem?

A: Well, I think, yes, affirmative in both directions. I think there's a tendency to over-design, and there's a tendency to ignore beneficiaries and local participants. And, I think the first one, the tendency to over-design, has to do with two things. One is, again, the question of realism as to how much you can expect to be accomplished. The second has to do with there being a tendency for staff to want to accomplish everything within the same project. In other words, the Bank, by now, has a wide range of policies, covering everything from technical design to ecological, environmental, gender, social, regulatory and economic stipulations, and everything in between.

Q: Is this a staff problem, or a Board problem? All these stipulations.

A: Formally, the policy is made by the Board. But individual staffers may try to apply all policy prescriptions in each and every case. Even if a staffer knows better, a system of peer reviews adds compulsion because, invariably, the question is raised: "How come you are not going to have environmental conditionality in this particular project? Is there no
environment where your project is?" So, while the policy intent is to be preventive, it's indiscriminate application is also in the career interest. That's why I feel a cultural change needs to be promoted. Currently staff are not encouraged to be selective or discriminating in making decisions on appropriate conditionality, and then be willing to stand up and be counted. It is easier to get borrowers to accept conditionality pro forma and for staff to ignore it during implementation. Policy proposals are often initiated by general research staff; they encourage the Board to promulgate policies—and I don't want to say the policies are wrong, they are right—but, in the application of the policy there should be much more discretion to meet specific circumstance. That is clearly the cause of a great deal of over-design.

Regarding local participation, there has been a creeping change of habits. We used to have economic and sector analyses and, on the basis of sector analysis, there was an identification of project priorities. The Bank consciously stayed away from the preparation of individual projects. But it came back for appraisal. Increasingly, we have seen a decline in sector analyses and in their quality. We have seen increasingly a tendency, and so have the borrowers, for Bank staff to involve themselves in preparation and implementation, often to the point where critical decisions appear to be made or influenced by Bank staff. In the process appraisal becomes essentially a self-serving confirmation of what staff did during preparation. Where that is the case, the owner is being pushed aside and participation suffers. So, when I urge more local and beneficiary participation, it is not that the Bank should have a hundred thousand farmers vote to get a particular irrigation project built. But, a local constituency needs to participate in the process of preparing the project,
promoting it, and defending it against the Bank’s inclination to trespass. In the process of appraisal the Bank may have a few things to suggest to improve upon the proposal. I think the Bank would achieve a great deal if it were to become more humble and return to the role of the prudent and trusted appraiser; once again, let appraisal be the "Seal of Good Housekeeping". Let the owner be the proponent and the defender of the proposal; that will build commitment and the foundation for satisfaction, pride and self-confidence.

Q: On the question of the pressure within the Bank to make loan commitments, just to turn the subject into another direction, wouldn't the Bank be hurt if it reduced the number of loan commitments it was making? And, moreover, how will the system have to be changed in terms of people's careers, of how their performance is evaluated, within the Bank if, in fact, loans or projects would either be aborted, or not initiated?

A: On the first question that the Bank would be hurt if it reduced the level of commitment, I have two reactions. First, some such early decline in commitment of lendable resources need not be permanent; there may be, indeed, a recovery as you build down the debilitating part of a country portfolio. But the more important question is: who hurts more? The Bank for not making a dubious commitment? Or a country squandering its creditworthiness on a potential problem project? In the long run the Bank cannot profit from saddling its borrowers with non-performing borrowings.

In some instances, the Bank's IDA portfolio may account for up to 40 percent of total external indebtedness of a country, and 70 percent of the 40 percent are failing, that's a pretty troublesome mortgage to carry for that country. So I don't think one can argue that the institutional interest in increasing its portfolio of assets should take precedents over the
not so marginal mortgaging of preciously little creditworthiness most Bank -- and especially IDA -- borrowers have left by definition.

Q: Finally, I have one further question to ask you. It's a question related to the idea of outside inspection teams. I'd like to know where that idea came from, and what you think of it?

A: Well, this was a theme that was offered to the Task Force repeatedly. It was offered, I think first, in a Joint Audit Committee meeting, thereafter by individual Executive Directors, mostly continental Europeans, who are familiar with courts of account and who thought that something similar might be appropriate in the Bank. I don't believe in this; it does not have my support. In the discussions with the Board, I argued against it. The first point I want to make is that there is no external assistance program anywhere--and during the course of our deliberations we had an opportunity to establish this--bilateral, regional, or multilateral, that performs better than the Bank's. Inspection is simply not the point. Overall, the Bank is not going under because of reckless behavior. There is a declining trend in project performance, highly concentrated in IDA countries and the Bank is contributing to it because of the presence of an approval culture. To remain the leading and preeminent institution that it is, it needs to reverse, and it can reverse to its earlier emphasis on performance. It should not resort to more bureaucracy, to a further invitation to promote compliance. It should not invite its staff, including its managers, to protect their rear. Such an emphasis would further foster risk aversion, not only of staff but also of managers. If not contained, it could retard development. By it's very nature such an inspection unit would be a public entity. Private sector investors, supported by Bank/IDA
lending, obviously would not want to be exposed to such intrusion. It is the wrong tool; an
over-reaction reflecting its bureaucratic origin. The implication of such a tool is
administrative control; what is needed, however, is cultural change in the organization
brought about by appropriate incentives. These consequences should be carefully
considered.

Q: Well, thank you very much for this very helpful addition to our oral history
program.