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ORAL HISTORY PROGRAM

Transcript of interview with

GUY PFEFFERMANN

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By: William Becker

Session 1
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[Begin Tape 1, Side A.]

BECKER: Good morning. Today is April 3rd, 2008. My name is William Becker, with the Business History Group and the World Bank Oral History Program. And I'm at the World Bank Headquarters to interview Guy Pfeffermann, who recently retired from the Bank after a long career at the Bank and the IFC [International Finance Corporation].

So, good to see you.

PFEFFERMANN: Thank you, Bill. I'm Guy Pfeffermann. In fact, before retiring, I asked HR [Human Resources] if I could stay on for another two months after the age of 65, and they not only refused, they refused in a memorandum that was cc'd to the executive vice president of the IFC, and, I mean, you could see them. It was a cat coming out of cold water, or shaking itself. But had I had these two months, I would have been 40 years at the World Bank.

[Laughter]

BECKER: I see. Okay. Well, very good.

I'm going to start with some obvious and easy questions. The first is when and where were you born?

PFEFFERMANN: Oh, I was born in the south of France in a place called Montauban, where my parents were German refugees—Jewish refugees—during World War II. And, yes, that's where I was born.

BECKER: Okay.

What line of work had your father been in; what was his profession?

PFEFFERMANN: Well, he studied medicine in Berlin but had to leave the country at age 19, so I think he did one semester maybe. I don't even know if he did that. And then they fled to Paris, where he did all sorts of odd jobs. But even during the war, he had an interest as an amateur historian.

BECKER: Ah!

PFEFFERMANN: And he ended up publishing a book (I think at his own expense), but it's an interesting theme on the Turks and the Vatican during the Renaissance period. And it was in his mind the parallel to the Hitler-Stalin Pact . .

BECKER: Oh.

PFEFFERMANN: . . basically, two powers that absolutely abhorred each other but who were willing to have kind of truces when it served their purposes.

BECKER: I see. Okay. Very good.

PFEFFERMANN: And then he joined an international organization and I grew up in Strasbourg, where he was at an outfit called the Council of Europe. That's where I went to high school.

BECKER: I see.

PFEFFERMANN: Undergraduate.

BECKER: Okay.

Where did you receive your education?

PFEFFERMANN: Well, I started off in grade school in Switzerland, in Geneva, where my father was working then. Then we moved to Strasbourg, where I went to a lyceé and spent three of my four years undergraduate. In those days, if you studied economics you also had to study law for a few years, so it was law and economics. And the last year was the happiest year of my student life, I think, up to that point at least.

[Laughter]

I left Strasbourg and set up on my own in a student hostel in Paris and spent a year in Paris, and it was so nice that I almost flunked my exams.

BECKER: I see. Well, I've spent a lot of time in Paris, so . . .

PFEFFERMANN: It was delightful.

And then I went to Oxford. I was very lucky. I got a scholarship to St. Antony's College and spent three years there and ended up writing a thesis. It's not a Ph.D. It's a Bachelor in Letters, it's called, and the subject was Senegal.

BECKER: Senegal.

PFEFFERMANN: Yeah.

BECKER: How did you come to study Senegal?

PFEFFERMANN: Well, there's a story attached to that. First of all, I found both the law and economics very depressing when I studied them as an undergraduate until I had a wonderful professor called François le Duc, who was teaching in Paris and was teaching development. And that opened up a whole exotic and colorful world to me, and . .

BECKER: What year was this?

PFEFFERMANN: This was . .

BECKER: Approximately.

PFEFFERMANN: . . 1961. And so I threw myself into this wholeheartedly, because here was something I really—that agreed with me. And when I came to Oxford I was looking for a topic, and my first try was small-scale enterprise in developing countries and it took about a year for people to tell me that this was too broad and wasn't a good subject.

So I was in a college that had just hosted President [Leopold Sedar] Senghor of Senegal. It was a whole retinue of people, and he was there to lecture about African Socialism and *Negritud*e and literature, et cetera. And he stayed a very long time, and we were a very poor college, so this left a mark.

And I thought to myself, well, I don't have money to go to Africa or anything like this. So I wrote him a letter saying here I am, an Oxford student. I'd love to study your country as a topic for my thesis. And lo and behold I got a wonderful letter back, which was a kind of, you know, a *Thousand Nights* type letter (and I wish I'd kept it), and it said, basically, "Young man, come and study us. You're most welcome. Anytime." And then the second paragraph started, "My entire cabinet is at your disposal."

[Laughter]

BECKER: Oh, interesting.

PFEFFERMANN: So I went to Dakar. Spent six months. Saw Senghor twice, and he was an extremely nice man. Very, very modest, intelligent, intellectual person. It was a delight to meet him. I was a pimply youth at the time, and it was just great.

And the funny thing was that after—they gave me a place to live, and then after a few days the chief of protocol of the presidency came to see me and asked how many more days I was planning to stay there. I said, “I don’t know. Five or six months.” It’s the one and only time in my life that I saw a jaw drop.

[Laughter]

PFEFFERMANN: But I did stay five months and did the research for my thesis.

BECKER: In the official guest house?

PFEFFERMANN: Well, yes, something like that, an administrative guest house, yes.

BECKER: I see.

PFEFFERMANN: It was lovely.

BECKER: So your interest in economic development, in part, was the result of your lack of interest in traditional economics.

PFEFFERMANN: Yes. Yes, and Strasbourg was a dreary town at the time. Nowadays it’s much more lively. And so—and my family background is pretty dreadful. My parents divorced and all that sort of stuff.

BECKER: I see.

PFEFFERMANN: So I was absolutely thrilled to escape to Paris, and then came development. So this was an epiphany.

BECKER: Now, development as an academic interest or specialty wasn’t very well developed at that time, or was it beginning to . . .

PFEFFERMANN: Well, yes and no. No, I think it was already. And one of the lovely things about François Leduc is that, you know, going to university as an undergraduate in France was rather like sitting in a movie theater. You had, like, 300 people in a lecture hall, and—whereas Leduc’s classes were very small, and he made you read. So, I read particularly [W.]Arthur Lewis, [Albert O.] Hirschman, who—and especially Hirschman, who is my favorite development economist--and really got the taste of it, reading a lot of really interesting books. And this is really what—Oxford was not the best place in the world. Especially in the United States, this was a time when USAID [United States Agency for International Development] programs were going strong, and in their wake there was a lot of good stuff produced in Ivy League universities in the U.S., all over the place. There was already—in fact, there was more than there is today because this has waned to some extent.

BECKER: Okay. Okay.

Now, you've mentioned Professor Leduc. Were there other faculty who were influential in your intellectual development?

PFEFFERMANN: Only one, I would say, whose name was Pierre Coulbois, and he was in Strasbourg, and he defined successful education in economics as something that would enable students to read the economic pages of leading newspapers and understand them. And I've always liked that: a very practical, hands-on.

I'm not a theoretician. I'm hopeless at mathematics. I was very fortunate to get my degree before mathematics became part and parcel of economics, and I've never regretted it, because there's a lovely book that is called something like "why society considers economists less useful than trash collectors." [Colander, David C. *Why Aren't Economists as Important as Garbage Men?* Armonk, N.Y.: M. E. Sharpe, Inc., 1991] And it has to do with mathematics, and the fact that, at least at the undergraduate level and also for Ph.D. dissertations, there's been an enormous swing towards favoring highly imaginative, complex mathematical models. And whether they have anything to do with reality or not becomes a tertiary question. And that's not my idea of economics.

BECKER: There's a book by Michael Bernstein [Bernstein, Michael A. *A Perilous Progress: Economists and Public Purpose in Twentieth Century America.* Princeton: Princeton University Press, 2001], who's an academic economist and historian, and he makes the same point about economics. And the other point he makes is that it's become hopelessly ideological and . . .

PFEFFERMANN: Well, yeah. I mean, I'm not too sure about that, but it's sterile.

BECKER: Yes.

PFEFFERMANN: It's sterile.

BECKER: So were there fellow students who you would say influenced your career or your . . .

PFEFFERMANN: No, not really. I mean, studying in France was a fairly lonely endeavor. You know, it's a kind of mass thing. My friends were the people that I lived with in the student hostel, none of whom was really an economist, so we really never talked shop. And at Oxford the same thing. I went to a few seminars, but it was not—at the graduate level, it was not a place which was very chummy, shall we say. I mean, I was very happy there, but it was pretty much you worked with your supervisor and then did your own thing.

BECKER: Okay.

Now, when you finished at Oxford, what did you do?

PFEFFERMANN: Ah.

BECKER: This was in the mid-1960s?

PFEFFERMANN: Yes. When [inaudible] in '65 or so.

BECKER: Mm-hmm.

PFEFFERMANN: I very much wanted to come to the World Bank. In fact, I applied and was interviewed before I got my scholarship to Oxford when I was just an undergraduate and was told, basically, very kindly but firmly, that I'd better go and get a Ph.D. or something like this before trying. So I was very fortunate to get the scholarship, which enabled me to go to Oxford.

And then I applied to the Bank again in '65, and as a backup I had applied to the Department of Economic and Social Affairs of the United Nations. And I was interviewed by both. And then, unfortunately, the UN sent me a telegram. In those days, such announcements were by cable, and not just short cables but cables that were, you know, a mile long, with all sorts of unnecessary detail. And I was very unhappy because that was really my plan B, and I didn't want to go to the United Nations.

So I thought about it, and I sent them a letter asking two questions, which I knew had to go to two different departments, so that it would take . .

BECKER: Take a while.

PFEFFERMANN: . . a while to get back. But bad luck, it did come back before the World Bank gave me an answer. So in desperation I sent a cable to the United Nations saying, "Pfeffermann hitchhiking on continent. The Porter, St. Antony's College." And a few days later, I got accepted by the World Bank.

[Laughter]

BECKER: Oh, I see. Oh, that worked out.

PFEFFERMANN: So that was wonderful.

So I came here, and in fact I did not have my degree yet. I flunked the first time my orals because I had two examiners, one of whom was very experienced and was fine. The other one, I was his first interviewee, and he had to, I guess, show his mettle.

BECKER: Show his—yeah.

PFEFFERMANN: And my thesis was on industrial labor in Senegal, and he asked two questions: one, was my sample representative (and in those days interviewing industrial firms that were mostly held by French companies was a feat in itself, so I did what I could but there was no way I could have a representative sample) and, two, he said, "Well, this is very interesting. But Senegal--and how representative is this of the rest of Africa?" And I hadn't a clue. So I had to go back, resubmit. I passed it, and I published the book, actually before getting the degree, which is very, very rare. And the book was a real bestseller: I think it sold 467 copies [*Industrial Labor in the Republic of Senegal*. New York: Praeger, 1968] So here I was . . .

[Laughter]

BECKER: And you wanted to publish that kind of story.

PFEFFERMANN: Next thing I knew, I was flown (first class in those days) to Washington. And we had a little reception, with no liquor, where George [D.] Woods, the president of the Bank, met groups of Young Professionals. This was—I don't know—the third or fourth group of Young Professionals. And it was very nice. I—since my father had been an international civil servant, I'm a second generation international civil servant. I'm also—I don't have deep roots in any one country. France, I guess, is the most. But I had by that time I had an American girlfriend, whom I've been now married to for over 40 years. And so I found both the institutional setting and the international collegiality at the World Bank extremely congenial. I took to it like a fish to water.

BECKER: Oh, very good. Now, how . .

PFEFFERMANN: And there I made good friends, as opposed to during my studies. Very good friends.

BECKER: Now, how many other people were in the program? This would be 1966?

PFEFFERMANN: Very small. Yeah, this was—well, I came a little bit ahead of the group. In those days they hired by groups, and the group, I think, came in the spring. And for some reason--I think because I didn't have any means of subsistence after finishing my studies--I asked if I could come in early. And they said if they had a suitable vacancy, they'd see. And so I came in December.

BECKER: I see.

PFEFFERMANN: But the group itself was some time in the spring.

BECKER: Of '66?

PFEFFERMANN: '67. And the group wasn't very large. I think we were about—I still have a photograph, which is someplace, of that group. And one of my group mates there became a very, very—he's a wonderful person called Arun Shourie, an Indian journalist, who became minister of privatization—or of disinvestiture, I think they called it, in the previous Indian cabinet, and he's just a wonderful, wonderful guy. He—his life was—I mean, there were attempts against his life, on his life, several times. He won a prize for the, you know, every year for the bravest kind of journalists. He's a great guy. So, yes, that was like that.

BECKER: Okay. Very good.

So you made very good friends. Who else stands out in your thinking, people you worked with in the program?

PFEFFERMANN: Well, the guy who ran the Young Professionals Program when I came in was a guy called Dick [Richard H.] Van Wagenen, who was a gentleman and a very, very nice old world, very fair person. I liked him a lot. His successor was a guy called José Andreu, who was a swashbuckler, a guy who'd spent time in jail in Cuba, I think, after the Bay of Pigs or something, and always had—I think at one point he worked for Bernie [Bernard] Cornfeld . .

BECKER: Oh, really? Oh, okay.

PFEFFERMANN: . . Investors Overseas [Services] or whatever, and then lost all his money. I mean, he was a real adventurer, and he was very good at this, too. Francisco Aguirre-Sacasa followed him, who later became finance minister—foreign minister of his country of Nicaragua. And so, I can't count them. There were so many, so many good people, and then fun people then.

BECKER: Now, what was the curriculum?

PFEFFERMANN: Well, there too I stretched the rules, as I seem to have done all my life. Normally there were three rotating assignments, or rotational assignments. And I managed to have four, which was great. So when you looked at the chart that was on the wall of the administrator, my line always kind of fell at the edge.

My first assignment was in the Economics Department. And one of my closest personal friends is Patrick de Fontenay, who later became the head of the IMF [International Monetary Fund] Institute, which is the equivalent of the World Bank Institute, and is now retired in Australia. I met him there, and a wonderful, wonderful person. So, I did that for a few months until my group came in, so to speak.

Then I had a stint with—this was in '67, and it was very interesting—with a guy called Irv [Irving A.] Sirken, whom you may have interviewed, for all I know.

BECKER: No, I have not. No.

PFEFFERMANN: He's—in those days, the Economic Development Institute, which is the precursor of the World Bank Institute, was a really first-rate institution, highly respected. They knew what they were doing. Their mandate was very narrow, and they did it well. And this is true for the Bank as a whole, actually. It was a microcosm. And Irv Sirken was an economist. He wanted to do a study of what pushed countries to liberalize, to abolish price controls, to liberalize trade, et cetera. And he wanted to take Israel as an example.

Well, that was '67. The war in Israel. We had to revert to Plan B. Plan B turned out to be Yugoslavia, so went to Belgrade, spent a month there, and did a very interesting study of what had pushed [Josip Broz] Tito to go this pretty much Chicago-oriented route.

Then I spent a short time helping with a huge Indus Water Basin study [*Water and Power Resources of West Pakistan: A Study in Sector Planning*. World Bank Report No. 11158, 1968], which—and I was very naïve in those days and kept making substantive comments. All they wanted me to do was really editing.

[Laughter]

BECKER: Yes.

PFEFFERMANN: So that didn't last very long.

Then I worked in agriculture [Agriculture Projects Department] for a while, and in those days—this was a strange department, with all sorts of livestock people and so on and so forth hanging around. And they put all the Young Professionals in a huge windowless office someplace and threw work at them. So you'd be there sharpening pencils for a while and then somebody would walk in and give you work. It was kind of like a pool. It was very demoralizing, actually. And I did that for a while.

Went to Africa on a mission. And then I ended up having to choose a permanent job and decided that because I had done most of my work on Africa I really wanted to try something else and I didn't want to be stuck working on Africa forever. When you are French and you work on Africa, you can get trapped . .

BECKER: You get trapped.

PFEFFERMANN: . . forever.

BECKER: Yeah.

PFEFFERMANN: So I started learning Spanish. I took Spanish courses at the Bank, which were very, very good. It was a State Department course; it was absolutely superb. And so got interviewed by people in Western Hemisphere, which was what Latin America was called in those days, and again was very lucky and met a person who became a lifelong friend, [E.] Peter Wright, who passed away a couple of years ago, who was then deputy director of that department. And I'll always remember he asked me a question. He said "What do you think of Latin American regimes?"

That was when they were mostly military regimes and very repressive and so on, and since I didn't know what his political thinking was, I said, "Well, it depends. You know, some are better than others."

He said—well, I got the job. So I figured that was the right answer.

BECKER: Okay.

PFEFFERMANN: And in those days, that was an elite department. The guy who ran it was Gerry [Gerald M.] Alter, who also passed away, who came from the [United States] Federal Reserve. And there was an intellectual rigor and discipline about the department which was absolutely stunning. Most of the economists were not only Ph.D.s, but Ph.D.s from good universities. And the standard of discussion and of what we produced, I think it was absolutely awesome, and I've really seldom seen anything like it later on.

The chief economist was Drag [Dragoslav] Avramovic, who then became the president of the Central Bank of Yugoslavia and stabilized the currency and became a folk hero in his country. And it was very funny to see Gerry Alter, who was a very, very Chicago economist, coming from the Fed and all that, and Drag, who really was a defrocked socialist, who was always hankering after improving the welfare of—he didn't really, but he was schizophrenic on this. And those two were a wonderful pair, because they really would take ideas and then shake them and so on, and what came out was great.

And there was another person called John [A.] Holsen, who was also great. And Enrique Lerdau. So it was an outstanding group of people.

There was one guy who didn't fit in there, who I won't name, who was my direct supervisor, and he made my life miserable, because basically he was a pretty angry, nasty old man who would use young people like myself and my colleagues—he was an emotional vampire. He would sit us down and then talk for hours and hours and hours about—it was trading emotional support from young people in exchange for teaching them how to write an economic report.

But the good thing about this period is that because my training, my formal training at university had been so lackadaisical, I really learned on the job. And what I learned was great.

BECKER: Now, this—how long had the Young Professionals Program lasted?

PFEFFERMANN: I don't know when it started. Oh, you mean the—oh, it was . .

BECKER: I mean the course of the . . .

PFEFFERMANN: . . 24 or 25 months for me instead of 18.

BECKER: Okay.

PFEFFERMANN: So, yup, because I came in earlier.

BECKER: Right. And so then after you finished the program, you're selected to . . .

PFEFFERMANN: I was an economist in Western Hemisphere.

BECKER: Right. You ended up in . . .

PFEFFERMANN: Right. And I worked on the Caribbean, a little bit on Mexico, yup.

BECKER: Okay. Now, how long did you stay in that . . .

PFEFFERMANN: Nineteen years.

BECKER: Nineteen years. Now, you started out as . . .

PFEFFERMANN: As an economist.

BECKER: As an economist. Okay.

PFEFFERMANN: And then at one point--I think it was when Dr. [Adalbert] Krieger Vasena came in as a vice president--there was a reorganization in 1972 which created Regions. And so Gerry Alter was the first vice president of that Region. Before that we were a department. And then Gerry was replaced by Dr. Krieger Vasena, who had been minister of the economy in Argentina. And he is the one who essentially—under whom the decision was made to make me a senior economist.

BECKER: Okay.

PFEFFERMANN: I supervised other economists writing economic reports. I like editing and doing that. And then I became chief economist . .

BECKER: In '79.

PFEFFERMANN: . . in '79. I was pretty young. I was 38. And, basically, that led to some problems because after Krieger Vasena left, he was replaced by Nicolás Ardito Barletta, who later became president of Panama. And his main object in life, I think, while he was at the Bank was to run for president rather than to run the department or the Region. And we had a difficult relationship because he didn't get on with Ernie [Ernest] Stern, who was running operations, so that was not very happy.

But then he was replaced by [A.] David Knox eventually, when he became president of Panama. And David and I worked together for about three years, and that was a wonderful, wonderful experience for me.

BECKER: Now, this is a difficult time in Latin America.

PFEFFERMANN: Yes.

BECKER: I mean, first off, there's all the borrowing in the '70s, and in the '80s there was, you know, the debt crisis.

PFEFFERMANN: Yes.

BECKER: So, what did you see as the Bank's role in that, or what did the Bank see as its role? First of all, in . .

PFEFFERMANN: Yeah.

BECKER: . . was there nervousness about the lending that was going on?

PFEFFERMANN: No. No, no. In fact, [Robert S.] McNamara, if you look at one of the *World Development Reports*—I think it was '79; I mean, just before the debt crisis hit--he was still going on and on about that there weren't enough resources, financial resources, flowing into developing countries and to have more of them and to get the banks to lend more. It was insane. I mean, in those days, anybody who took a plane to Santiago, you couldn't find a hotel room. The bathtubs were rented by bankers. I mean, it was just absolutely insane. So there was a real disconnect between McNamara's messianic mission and vision and what was happening on the ground.

Then, of course, when there was inflation in the U.S. under [Jimmy] Carter.

BECKER: Right.

PFEFFERMANN: [Paul A.] Volcker had to hike interest rates astronomically. That had a knock-on effect on all the Third World debt, and—and all these countries were in the soup.

I thought—and this goes beyond Latin America—Latin America was an interesting Region because [J.] Burke Knapp, who was the number two before Ernie Stern and also had come from the Federal Reserve and was a thorough gentleman. He was the kind of guy who could receive a country delegation saying no to everything they asked for and people would leave his office with broad smiles on their faces. He had a real talent. And so he and Gerry Alter really practiced conditionality long before . .

BECKER: This is in the '70s.

PFEFFERMANN: Yes—long before the rest of the Bank, the other Regions, took to it.

And I think the reason the Latin Americans were willing to play this game was that they saw that the Bank would be a very easy scapegoat. And the game was, you know, if I'm a finance minister and I want to push through unpopular reforms, I go to Washington. I get a big loan. I come home. I say, "Yeah, but the Bank insists that we do A, B, and C." And then all the flak would go against the Bank and not against me because I brought them the money. And this worked very well when it was well played, this game.

In the other parts of the Bank, countries, especially in Asia, bristled at the idea of conditionality. They never liked it at all. And worst of all was to them if you linked overall macro conditions to a specific project. So they said, "Okay, if need be, if you finance irrigation, we'll accept some conditions to do with water pricing and so on, but certainly not with our fiscal deficits."

So the Latin Americans understood that if there was enough money at stake coming in the form of projects, (a) the projects would be better than they would be otherwise, and (b) they could hang on to this kind of game and have some reforms at the same time. So this was great.

Now . .

BECKER: This is still the '70s?

PFEFFERMANN: Yeah. This is project lending.

BECKER: Right. And it's mainly, I guess, for ISI? I mean, there's still . .

PFEFFERMANN: What is ISI?

BECKER: Import substitution. I mean, there's a whole . .

PFEFFERMANN: Well, no, no. It was mainly infrastructure. It was dams; it was highways; it was then eventually schools, agriculture.

BECKER: It was not into industry or . . .

PFEFFERMANN: There was industry through—in the form of development finance companies, and that was highly controversial. I mean, there's a whole literature on this. I'm very skeptical of it myself. But no, it was mainly infrastructure.

BECKER: I see.

PFEFFERMANN: And then came this idea of—well, and just an aside on conditionality. Eduardo Wiesner, who was at one point head of Western Hemisphere at the IMF, and I think he had been either the Colombian finance minister or head of planning—and then we're still friends and communicating today—he once told me a lovely joke. He said, "Every time I meet somebody who is foaming at the mouth and then telling me how terrible it is to have conditionality, you know, I feel like asking him for a loan." [Laughter] I think this guy, he deserves fame just for that quip.

BECKER: Sure. That's a very . . .

PFEFFERMANN: I think this is very . . .

BECKER: . . funny one.

PFEFFERMANN: Yes.

So—but the trend was different, and, as with the debt crisis, countries started piling up huge deficits. They had to be financed one way or another or the countries would grind to a halt. And in the beginning these so-called structural adjustment loans, which were nothing but—the Bank didn't invent them; USAID invented something called "program loans" much earlier, which is the same thing. It's basically a check given to the treasury in exchange for economic reforms. And then that's what was done in Korea after—you know, under Kennedy—and in Turkey. So the Bank just called it a different name. They called it "structural adjustment loans." And initially they were supposed to be preventive, not curative.

And I remember—I think there were a couple like Peru or Barbados (I can't remember what it was) where it was really based on forecasts. The countries were still doing okay, but you could see the writing on the wall and so on. But soon the crisis just swept all that aside, and it was really trying to breach the dam, to plug the hole. And I've never been fond of that.

I think the bargaining power was entirely on the countries' side. They knew that the Bank was anxious to lend to them. Nobody wanted them to default.

In fact, I remember Volcker walking the corridors of the Bank—this is second-hand; I didn't see him myself, but it's perfectly plausible—and apparently he was using the telephone in one of the corridors, and a secretary said, "Excuse me. Do you work here?"

And he said, “I own the place.”

[Laughter]

But the Fed, Ed [Edwin M.] Truman and so on and so forth, they really came to the Bank with projections of the financing requirements of the main countries that the money center banks in New York were exposed to and said, “Here is how much you’re going to lend to these countries in the next five years.” Well, the countries knew that, and so what was achieved through all this I think needs to be written about. I think a lot of them took the money and ran.

BECKER: The countries?

PFEFFERMANN: Yeah, the countries. Yes. Because they knew what was going on.

BECKER: Yeah, they knew that the—are you saying that they knew that the Fed knew that the New York banks (and some European banks, I guess) were highly exposed?

PFEFFERMANN: Yes.

BECKER: Did you get a sense that the New York banks were pressing the Bank?

PFEFFERMANN: Oh, yes.

BECKER: Oh, yeah. To . . .

PFEFFERMANN: Oh, yes. I mean, there were these . . .

For instance, Bill [William R.] Rhodes at Citibank, who then became very prominent, they had these—I can’t remember the technical term, but they were basically country-specific debt groups that could . .

BECKER: [Inaudible] yeah.

PFEFFERMANN: Yes, and he was always heading the one in Brazil, and the Bank and the Fund were part of that or were invited to it, I don’t remember. And, oh yeah, it was very overt. It was very overt. There was no, no secret about it at all.

BECKER: Mm-hmm. Okay.

PFEFFERMANN: Because everybody felt that the worst risk—I mean, it’s very much like today with Bear Sterns and so on--was the center would collapse.

BECKER: What I could never understand about this . . .

PFEFFERMANN: But, of course—sorry to interrupt.

BECKER: No, no. Okay. No.

PFEFFERMANN: It really undermined the staff of the Bank because the professional opinion was at variance with this. We thought that unless there are real reforms in these countries, they're not going—it's like giving drink to an alcoholic.

And the most egregious instance was after David Knox left in 1987, [S.] Shahid Husain became vice president for Latin America, and he approved an agriculture sector loan to Argentina, which actually Stan [Stanley] Fischer at the Fund also condoned, which was just a giveaway. And then this hit the press. It was widely discussed, and so on. And there was just no conditionality. It was a game. Nobody expected the Argentines to do what they said they would do.

BECKER: Mm-hmm.

What I never understood about this is--I mean, Volcker comes in. Historians play with dates, so, I mean, that's my claim to fame. I remember dates. So Volcker comes in, I think, in August 1979, makes very, very clear what he's going to do. I also understand that a lot of the loans that the banks had given were dependent on variable rates.

PFEFFERMANN: Yes.

BECKER: And what surprises me that people were surprised at, you know, the Fed is raising interest rates 10 percent to 12 percent, that this isn't going to create just an enormous problem.

PFEFFERMANN: Well, I think it was—the dog, the tail, and the tip-of-the-tail story. Attention was really focused on stagflation in the United States, quite rightly so. That's the dog. And then Mexico, Argentina, et cetera, that's maybe the tail of the dog, and then the smaller developing countries, that's the tip of the tail of the dog. And nobody thought of the consequences for African countries, for example, and so on and so forth.

So I think it took a—it just wasn't on the radar screen. They were all too busy with domestic problems in the U.S.

BECKER: Problems in the U.S.

PFEFFERMANN: I suspect that was what happened. And I'm sure that somebody like Ed Truman—or there were people at the Fed whose job it was to worry about developing countries, but they were not center stage at that time, I don't think.

BECKER: Okay.

PFEFFERMANN: But this is speculation.

BECKER: Okay.

Now, as you were chief economist for Latin America in the '80s . .

PFEFFERMANN: Yeah.

BECKER: . . what about the efforts of the Treasury under [James A. III] Baker and then later on [Nicholas F.] Brady with price . . .

PFEFFERMANN: Well, that was very interesting because, as you know, there was a huge conflict between the Bank and the U.S. government at that time of—some people at the Bank—and you had—this was under Anne [O.] Kreuger's tenure as chief economist.

BECKER: Right.

PFEFFERMANN: The Bank's financial forecasts and economic studies were leaning very strongly in favor of debt renegotiations, which was anathema at the time to the U.S. government. You remember when [Donald T.] Regan was still Secretary of the Treasury he kept saying that this is a problem of liquidity not a problem of solvency and so on.

BECKER: Sounds familiar.

PFEFFERMANN: Well, bullshit.

BECKER: Yeah. Yeah.

PFEFFERMANN: I was, in fact, chairing--this was a very interesting experience that I like--I was chairing a wonderful task force at the time that included terrific people, like Alan Gelb, for example, who is now the chief of staff or the director for Development [Policy] in the Bank and again a very close personal friend. And because a lot of the debt was in Latin America, I guess they asked me to chair this group, but it had people from all the Regions. And what we did was we took the large, heavily-indebted countries, forecast for the next five years what would happen under two assumptions, basically. One is if they service their debt, and the question we asked: what will happen to the people's consumption levels if the countries have to service this debt. And two things came out of that. One was the impact was huge and, two, it was very long lasting. So this totally negated the official U.S. position.

Then came the Brady Plan, and then they began to kind of talk about rescheduling, and then it was a matter of how to do it and how much, rather than whether to do it.

But I think that this study we did was quite seminal, but there was a huge clash. I remember that when Stan Fischer came in he in fact dismissed Jean Baneth, who then changed positions to go somewhere else, because of U.S. pressure against any kind of talk about debt renegotiations, et cetera. And in retrospect—I mean, and then people realized it at the time, it was (this is a dilemma which the Bank really confronts, and the IMF even more) that their own, basically the largest shareholder, and shareholders—because the Europeans were unanimous with the Americans at the time not to open this Pandora's box of renegotiation. But what happens if you have a bunch of honest intellectuals at the Bank who say, "It ain't so; I mean, you're going the wrong way?" And this is a big problem. It still is today. To what extent can the Bank express views which are at variance with those of its main shareholders?

But there's a later case, which is Joe [Joseph E.] Stiglitz, where I think Stiglitz was dead wrong during the Asian crisis. He had no experience in macro management. He was a brilliant microeconomist.

BECKER: Right.

PFEFFERMANN: That's what he got his Nobel Prize for. But he doesn't know what he's talking about in terms of running a country. And he kept kind of—basically, he said that high interest rates after the crisis were terrible, that the Thai government should have worried about the impact on low-income people of what they were doing.

Well, this is like saying that when your house is on fire, you should stop the fire brigade and you should rearrange the furniture inside the house. It was insanity, totally impractical. And eventually Larry [Lawrence H.] Summers asked, when he was Secretary of the Treasury—rumor was that Jim [James D.] Wolfensohn's second term was conditioned on his getting rid of Stiglitz because he kept foul-mouthing the Bank—I mean, the Fund.

So you have these two instances of the same thing basically, of prominent intellectuals at the Bank taking positions which clashed with their main shareholders. It's an interesting issue.

BECKER: What about the banks in the '80s? I mean, were they concerned? What was their position on this? It always struck me that banks are in the habit of renegotiating loans. Didn't they take a stand?

PFEFFERMANN: Well, yes. You mean the commercial banks?

BECKER: The commercial banks.

PFEFFERMANN: Oh, yeah.

BECKER: [Inaudible]

PFEFFERMANN: You see, there is a kind of libertarian view which was defended—I can't remember exactly who defended it at the time—that the Bank and the Fund in fact made things worse by trying to play the nanny to everybody and that the countries and the banks would have been forced to come to—it's a bit like Iraq today. I mean, I hold a view that if America pulled out of Iraq, after some bloody events the different parties would have to come . . .

BECKER: Would have to come . . .

PFEFFERMANN: You know, when you have dogs in a dog park and you hear these growls and barks, et cetera, it is a mistake to intervene because they'll sort themselves out eventually. You know, there'll be a pack leader, and there'll be a pack. There's much to be said for that, I think. But it terrified the people in governments. Yeah. Yeah.

BECKER: I mean, the—I thought at the time that there were renegotiations going on in Europe between the countries and some of the banks.

PFEFFERMANN: Yes.

BECKER: I guess it was miniscule compared to . . .

PFEFFERMANN: I am not really—I don't remember the details, but yeah, it wasn't of the essence.

BECKER: Yeah. Okay.

PFEFFERMANN: I mean, it wasn't really the big loans to Mexico, to Brazil, et cetera, et cetera.

And, I mean, you know the anecdote when this first became clear to—I think it was Brady, yes, when he met the finance minister of Mexico (and it's an old anecdote) and the U.S. Treasury Secretary said, "You've got a big problem," and the guy said, "With due respect, it's you who have a big problem."

You know? And this was true.

BECKER: It's—yeah, because the U.S. was now holding, you know, the bag on this.

PFEFFERMANN: Mm-hmm. Mm-hmm.

BECKER: Now, let me ask a little bit about some of the other aspects of program adjustment or structural adjustment or what—some of the other aspects of what became known as the Washington Consensus.

PFEFFERMANN: Yup.

BECKER: What role, if any, did your shop have in thinking about these issues, in developing these ideas?

PFEFFERMANN: Oh, the economists were in the thick of it. And I think that the level of detail that some of these agreements came to was ludicrous and was in a way, I think, the kind of fig leaf for the fact that people knew in their hearts that the countries would take the money and run, so they had innumerable conditions on tiny things.

I remember, for example, that in Jamaica I spent two days—two of the most unpleasant days of my life—in meetings with Mr. [Edward] Seaga, who was then the prime minister, who was an extremely disagreeable person. And we—our mission was that they hadn't done what they were supposed to do in some trade-related adjustment loan.

And so I had never done this before, but my wife was very helpful, and she said—she's very good at psychology--she says, "Well, you know you just play the broken record," she said. And I did that.

And whenever Seaga said, "You know my position is impossible. I've got these trade unions up in arms and the chicken consumers," or whatever it was, I would just say, "Oh, Mr. Prime Minister, I see your point of view perfectly well. However, our position is . . ."

The guy got absolutely frustrated. I've never seen anybody so—he contained himself, but after the meetings were over and the Bank (by that time, the higher echelons of the Bank had been brought in) yielded across the board to the Jamaicans, I said to him, "Goodbye, Mr. Prime Minister, and I'm very sorry I've been here such a short time. I haven't had time to look at your beautiful island, and I hope to come back and do that."

And he looked at me with cold lizard eyes and said, "I hope not."

Upon which his very pretty secretary said, "Oh, no, no, no. He doesn't mean that."

He certainly did mean it.

[Laughter]

BECKER: Ah—so, back to Jamaica.

PFEFFERMANN: So no, the broader point is that I think the Bank dissipated a lot of energies in this structural adjustment area.

Now, it did achieve some—I mean, countries that were interested . . .

[Interruption]

PFEFFERMANN: So I think that it is very much like the light bulb in the psychiatrist's joke. If the country wants to play ball, structural adjustment loans can really help. If the country does not want to play ball, you can, you know, have conditionality until you're blue in the face and it's not going to do much good.

BECKER: Now, where do you think it worked?

PFEFFERMANN: You know, it's difficult for me to say because I've only seen it in Latin America.

BECKER: I mean, in Latin America (for that reason) would you say?

PFEFFERMANN: I think this really goes to what kinds of reforms the countries did, and Chile is usually kind of painted as the poster child, but they had a huge hiccup. I mean, they started off in 1975, when copper prices were very low. It was a disaster. This was the post-[Salvador G.] Allende situation. Then they did extremely well until 1982. Then the debt crisis coincided with an internal financial crisis and they collapsed again and then they picked themselves up again. I don't think the Bank, the World Bank, played a major role in this. I think that they—this was either self-inflicted or self-cured. They had brilliant economists.

And Colombia did very well. They continued—I mean, they picked up growth again, but then they were not among the most indebted countries. They followed very prudent policy.

I think of the countries that borrowed a lot, really all of them stagnated for many years.

BECKER: Mexico . . .

PFEFFERMANN: Mexico, Brazil, Argentina and so on, yes.

BECKER: Okay.

PFEFFERMANN: Yes. Yes.

BECKER: So it's not really until the '90s or so . .

PFEFFERMANN: Yes.

BECKER: . . that they begin to sort of say that a whole generation is . . .

PFEFFERMANN: Yes. Yes. Oh, yeah, there was a loss. At least a decade.

BECKER: Mm-hmm.

PFEFFERMANN: Yup. Yup.

BECKER: Now, what size . .

PFEFFERMANN: Which, by the way, is exactly what we had projected in our projections in this task force, that it would take many years, no matter what they did.

BECKER: Now, a more bureaucratic type question and all. How large was your staff?

PFEFFERMANN: Tiny.

BECKER: Tiny. And it remained small?

PFEFFERMANN: Well, the thing is it was a dual reporting system, like everything in the Bank. For example, a senior economist would be in a department and would report to his director—the department director—but also have a functional relationship with the chief economist. So, dual reporting. One is—well, both. And, of course, often people sat in the same room and so on.

In my case, it was never much of a problem. Then a chief economist deals with the senior economists and the economists at large, and I would say in Latin America there were probably about 30 economists or so in the '90s. And so we would have weekly meetings. They would essentially conduct the dialogue—do the research and conduct the dialogue with the countries that they were responsible for. And my job was basically quality control and to show up once in a while when there was a meeting that I needed to be at and that kind of thing, yes.

The Office of the Chief Economist was tiny. We were basically two higher-level people and a research assistant. But we were able to—I was also a member of the Research Committee at the time, and have been for most of the time that I was chief economist--and we managed to get some very interesting research going, and this was also a great source of satisfaction.

And I—one of the nice things in my life at the World Bank is that I was able to write a few pieces where I said exactly what I thought. And one of them is called—was about the debt crisis, and what we talked about before. [*Poverty in Latin America: The Impact of Depression.* Washington, D.C.: The World Bank, 1986] And basically it was a pamphlet that was saying: Look, because this is going to take years and years to mend; meanwhile, there's things you can do other than just growth to help people, in health in particular, namely, improve efficiency of the health system and so on and so forth.

Now, Ernie Stern didn't like that at all and sent it back to me, scribbling (and he had a very sharp intellect, and I think he had a point in a way) saying that if nurses' wages went down enough you could do that, et cetera, et cetera. So I pushed it through and got it published while he was on leave in the summer. And it proved to be a popular pamphlet. And it's a little World Bank booklet.

And later on in IFC, also—and this time with the full backing of my superiors—I was able to produce something on the—articulating the link between private sector development and poverty reduction. And that was very interesting [*Pathways Out Of Poverty: The Role of Private Enterprise in Developing Countries.* Washington, D.C.: The International Finance Corporation, 2000].

BECKER: The earlier—but this earlier work was done while you were still . .

PFEFFERMANN: Chief economist in Latin America.

BECKER: . . still in Latin America?

PFEFFERMANN: Yeah. Yeah. Yup.

BECKER: Let me just ask: what was the thinking in—among your colleagues, among the economists there--about the issues of private sector?

PFEFFERMANN: Ah, this is very interesting because the Bank has throughout its history—you know, I'm a strong believer in mimitism. I'll give you an example. There was a huge contrast in Latin America between the Mexico division and the Brazil division. And this contrast, I think, reflected the difference in character and temperament of—between the Brazilians and the Mexicans.

Mexicans, especially in those days, had, because of their political system—one-party system and their whole tradition—to them the Bismarck saying that "knowledge is power" applied 100 percent. They would only—I mean, getting information out of them was like pulling teeth. If you so much as disseminated any information that one Mexican agency gave you to another, you got almost kicked out of the country, and this almost happened to me. I was rescued by Enrique Lerdau, the guy I mentioned . .

BECKER: Oh, okay, yes.

[Laughter]

PFEFFERMANN: . . who was then my senior economist, or my director. And so it's very secretive, and people keep everything close to their chest.

Well, the Mexico division was run just like that. And so it was very difficult. They would not deviate one iota from what really pleased the Mexicans, basically. And the Mexicans, if they had something that displeased them in any draft Bank report that was being discussed, would pick up the phone, call the [U.S.] Treasury or the president of the World Bank and saying, "I think there's some rather young people, a little green, who wrote this," or something like this, and it will be set straight. They had huge influence in Washington.

Brazilians couldn't care less. You'd tell them, "Your situation is terrible," and they'd sit back and say you don't even know the half of it. I mean, it was a totally different atmosphere.

So in the same way—remind me of your question. It was going to that.

BECKER: Well, the question it had to do with—beginning to focus on private sector.

PFEFFERMANN: Right. Private sector. In the same way, Bank—IBRD [International Bank for Reconstruction and Development] people and IDA [International Development Association] people basically deal with government officials.

BECKER: Right. It's all sovereign loans, I guess.

PFEFFERMANN: So they become like government people. And most government people don't like the private sector, so they don't like the private sector much. And this colored the relationship between the Bank and IFC throughout the history of the two institutions. It's a--and I know it because I'm a convert in a way. When I was at the Bank, I felt the same way. I kind of looked at the private sector in a very negative way as people who, you know, were disorderly; markets were imperfect; there were lots of monopolies, this, that, and the other. And I was never really very much taken by the private sector. And it's only later on in life, especially when I was at the IFC, that I saw that government failures were really even bigger than these private sector failures, and that unless you had a good private sector, you didn't grow.

BECKER: Okay.

PFEFFERMANN: But the cultural difference—I mean, the perceptions were wonderful. I remember being in Asunción, in Paraguay, one day, which in those days had, like, two traffic lights in the whole town. I mean, it was a Ruritania. And I was having lunch, and there was an IFC mission that was there, a few colleagues, and they were all excited. They'd finally found an investment. IFC never found a good investment in Paraguay. And what was it? It was toilet paper. And I thought to myself, "Here we are dealing with the big problems of debt, et cetera, and these guys are looking at toilet paper." And this was the way the Bank saw IFC, as a bunch of opportunistic cowboys.

The IFC, I discovered later, and with some justification, looked at the Bank like Gosplan, I mean a heavy planning-oriented machinery, very, very slow and sluggish and so on and so.

BECKER: The reason I asked this question, I'm trying to remember the name of the American ED [executive director] in the '80s who I interviewed at one time [E. Patrick Coady]. Given the Reagan stature or orientation and . .

PFEFFERMANN: Ah, yes.

BECKER: . . and Anne Kreuger's orientation, was there pressure from the top to look more at the . .

PFEFFERMANN: Yes.

BECKER: . . private sector?

PFEFFERMANN: Yes. And it was driven by the U.S., and, as you know, the U.S. kind of had the Bank by the short hair at that time because what triggered the reorganization of '87, remember, was that the U.S. refused to vote for the budget of the Bank, which had been—that was unprecedented. It had never happened. This was Barber [B.] Conable's presidency.

BECKER: Right.

PFEFFERMANN: And he was an American politician, of course. So he felt he had to do something, and he reorganized, which is something. But at the same time, the [U.S.] Treasury got the Bank to create this whole private sector committee or commission or whatever they did.

BECKER: Within the Bank?

PFEFFERMANN: Yes, within the Bank.

BECKER: Yeah.

PFEFFERMANN: And Richard [H.] Frank was, I think, heading it for a while. It was a thankless task because of this irreconcilable cultural conflict within the Bank.

And the end result was quite funny, because the U.S. then—I think what was coming up was a capital increase for the Bank. And the U.S. made it a condition that private sector become part and parcel of the Bank's thinking, that every country strategy paper (or whatever they were called) incorporate something about the private sector, et cetera, et cetera. And so—oh, no, it was the IFC capital increase which was at stake. And what they didn't realize was that most people at the Bank couldn't care less about IFC's capital and would have been quite pleased, actually.

[Laughter]

BECKER: Not that again. Yeah.

PFEFFERMANN: Exactly. So, it was a kind of a bit like the kid that gets kidnapped and that behaves so badly that the ransomers end up . .

BECKER: Giving him back.

PFEFFERMANN: O. Henry, I think. Yes, right.

BECKER: Well, mentioning—my next question had to do with the '87 reorganization, which was traumatic for lots of people.

PFEFFERMANN: Yes.

BECKER: And it, I guess, triggers the beginning of the end of your career at the Bank, and all.

PFEFFERMANN: Yes.

BECKER: Could you talk a little bit about that?

PFEFFERMANN: Yes. Well, it was a disaster. And what I still feel very angry about was that it was a—a personal psychological disaster in the sense that the lower down you were in the Bank, the higher the level of uncertainty and anxiety. And that I found absolutely unacceptable. As you know, what happened is that all positions got abolished and then people had to kind of re-apply for . .

BECKER: Re-apply.

PFEFFERMANN: Yeah. And besides the issue of cascading clans of different nationalities, which is familiar, what I'm alluding to is that people were really treated like guinea pigs and, basically, incentives were created which preyed on, which banked on, people's fears and anxieties in the following way: that, essentially, you could either quit now or decide to quit later, or to apply or not to apply. And for secretaries, for example, this was a matter of life and death, I mean, especially non-U.S. secretaries. What would they do? And the size of the compensation package that you got would shrink if you took too long to make your decision. You had to decide now and not tomorrow. You didn't know what job you would get, if you would get any job. And it was truly devastating in this respect. I mean, it was—if you'd wanted to have the maximum pain and anguish, it would have been structured that way.

I think Conable had no idea how to run an outfit, and I think whoever was heading this reorganization—and I think this was the group of Kim [Edward V. K.] Jaycox and various other people, et cetera—they honestly had—either they hadn't looked at the consequences, or they were really reckless in a kind of purely human way.

Personally, initially, I was—it was bad in the sense that I'm not an academic economist, and so after my vice president for Latin America, David Knox, left, I was offered by Shahid Husain to continue, but I'd been 19 years in the job, and I really didn't want to continue, partly because of the cast of characters. And so I ended up following John Holsen, who had been chief economist for Latin America and was now in [South] Asia [Region], and he was going to set up a whole new kind of economic research complex. And he offered me the largest division in this complex, which was called the Debt and Macroeconomic Adjustment Division, and that was horrible.

First of all, the division only existed on paper. Everybody had left. So, out of, I don't know, 20 positions, there were maybe three stragglers who were still there and then resentful and sulky—17 vacancies.

Secondly, John Holsen was a terrible manager, and we didn't have budget until I think six or seven months into the fiscal year. I mean, nobody knew what we could do, what we couldn't do.

Thirdly, the period straddled Anne Kreuger and then Stan Fischer. And their view as to what a research department should do at the Bank was very different. Anne was only interested in research, basically. Stan wanted to harness the research for operational purposes and then encourage cooperation with the operational people in the Regions and so on and so forth.

And I got stranded there. These were probably some of the nine most unpleasant months, even though some of my colleagues were great. I mean, I learned a great deal and then . . .

But I just—it wasn't my thing. And I felt I was pretending, basically. It was not my thing.

BECKER: So this is '98, I guess.

PFEFFERMANN: This was '88.

BECKER: Ah, yes, '88.

PFEFFERMANN: Yeah. It was when—most of '87 and beginning of '88.

And then the gods smiled, and, well, what happened was that IFC—the reorganization of the World Bank had spared IFC. And basically, the philosophy of the—the stated philosophy of the Bank's reorganization was to delegate "all power to task managers," and to—so the IFC felt, for whatever reason, that they needed to follow suit and also follow this kind of delegation, a decentralization policy. So at the beginning of '88, they did that.

And they had a big—by IFC standards—department called the Development Department [Business Development and Syndications Department], and was both an economics department and it put its own people on appraisal missions for operational investments. So they had a big role. And very often they would clash with the, say, the Regions within IFC that did these investments and they wanted to invest. And the economists would come along and saying there's too much protection or this, that, and the other—any number of reasons why they shouldn't do it, et cetera, et cetera. So there were sparks there, and my predecessor there was a guy of, let's say, strong temperament, so there were sparks. And so they abolished this department.

There was a rump department, which was then called the Economics Department, and all the other economists that were there were sprinkled around and became Regional economists. And the idea was that it would—the Regional departments would do all the stuff, and then the—it wasn't too clear what the rump Economics Department would do.

So my predecessor quit. His number two quit. Most of the other economists quit. They all came to the World Bank except Richard [W.] Richardson, who retired. So they all voted with their feet, and the place was empty. So Bill [William S.] Ryrie at that time needed a chief economist.

BECKER: An economist, yeah.

PFEFFERMANN: Yup. And he interviewed a number of people.

I'm very flattered that among the people he interviewed was Enzo [R.] Grilli, who passed away a few years ago, who was a marvelous person who ended up teaching at SAIS [Johns Hopkins School for Advanced International Studies] and was considered the most popular professor at Bologna. I mean, he was just a wonderful, wonderful person. He had no interest whatsoever in this job.

And I hesitated because, again, this wasn't my thing. I'd never done private sector. I had no idea, so I networked with my friends and asked them for advice: "Should I really go for that or not?"

And they said, "Well, you know, it's a promotion. You'll be a director. You should accept it."

And so I did. And that was early '88.

And it turned out that Bill Ryrie, who was really a marvelous executive vice president, he was an English—well, Scottish mandarin who came from the civil service.

BECKER: Treasury, I think, if I recall.

PFEFFERMANN: Yes. Well, no, he was in the ODA [Overseas Development Administration]. He was . .

BECKER: Oh, okay. [Inaudible]

PFEFFERMANN: . . in the aid ministry. But he was also an executive director here in . .

BECKER: Right.

PFEFFERMANN: . . the '70s. And, as you know, the Brits, like the French, it's the same person who does the Bank, the Fund, and the embassy, so it was an important post.

And he had this wonderful way to manage people, which I've found in the best British people like David Knox and Peter Wright and Bill Ryrie, who know how to assess people and who give them enough rope to try and then—try out new ideas, but then know when to pull in. And it was just wonderful. It was a great, great experience.

And it was very funny because it turned out he had absolutely no idea what I should do, either. And I remember a cab ride in New York with him very early on. We didn't have "hooked atoms," we say in France. We didn't have a perfect rapport initially because I think that we just didn't know each other very well. And he didn't know what made me tick; I didn't know what made him tick, and so on.

And so I asked him, "What would you like me to do. I mean, what do you expect?"

And he said, "Oh, I don't know. I want to put IFC on the map." So that was clear. He wanted some publications. Before then, IFC had not had an intellectual presence. There had been no publications, no research, nothing. And then, you know, "all these interesting things like commodity prices going up and down" and so on, and then he was distracted talking about that.

So these were my terms of reference, basically.

BECKER: Yes.

[Laughter]

PFEFFERMANN: And what I did then was—I was very fortunate. I hired a good group of people. And we developed—we had to (because nobody told us what to do, basically) we had to develop our own agenda, and we started introducing, for instance, country risk analysis to IFC, which was kind of interesting. And I remember sitting at my typewriter and doing a checklist that made it possible to compare countries, and so on. Today it's all a very sophisticated; I mean, system and all that.

We did a lot of work later on on the issue of what is the economic and social impact of private investments. And that answered a recurrent on these by the Board of Directors in the World Bank of: "What good you guys at the IFC do you think you're actually doing?"

I started a series of IFC discussion papers, which are now all available electronically. And those were really the first—it was the first series of publications that was dedicated entirely to the intersection of private sector and development. And I remember one of the first ones we did was on health, on private sector health [Griffin, Charles C. IFC Discussion Paper Number 4: *Strengthening Health Services in Developing Countries Through the Private Sector.* Washington, D.C.: The World Bank, 1989]. And that was with the encouragement of Bill Ryrie and his management group.

And I got a wonderful guy from the World Bank called Charlie [Charles C.] Griffin—I mean, he joined the World Bank later—who was an assistant professor at the University of Oregon in Portland. And he and I wrote a paper which essentially said (which is common, commonly accepted now) that it's all very well to say that health is a public responsibility, government responsibility, but you go to Africa and places like this and governments just don't do it. They talk about it, but it doesn't happen. So, most people go to either clinics or, if they can't afford them, to pharmacists or to witch doctors or to NGOs and, you know, faith-based hospitals, whatever. So the private sector, in effect, is already a huge player . .

BECKER: Involved.

PFEFFERMANN: . . on that stage. And this was something which a lot of people, especially the Brits who are used to the National Health Service and so on, found absolutely bizarre, you know. It was a novel concept. So we did that kind of thing, and it was really a very happy and productive and interesting time.

[End of Tape 1, Side A]
[End of session]

Session 2
April 3, 2008
Washington, D.C.

[Begin Tape 2, Side A]

BECKER: It is Thursday, April 3rd, 2008, and this is the continuation of an interview with Guy Pfeffermann.

We're talking about your early years at the IFC, and you talked how sort of serendipitously you began to work on, I guess, for the Corporation for some different kinds of things.

PFEFFERMANN: Mm-hmm.

BECKER: And this was because the head of—the executive vice president had more or less given you a, put you on a long leash. And you said that there was a—you worked on a discussion paper on the intersection of private sector investment.

PFEFFERMANN: Well, the whole series of discussion papers, which started shortly after I got there, was about that intersection of private sector and then development. And it was also a very good way of keeping people motivated, because people like writing things and this gave them an outlet. It was a very inexpensive kind of outlet. These were soft-cover World Bank publications. And yet some of it became quite—I mean, we tried to really be innovative and out of the box.

And one of the—well, the other thing was that IFC is—was, and I don't know if it still is, but was certainly then a very insular place, and there weren't all that many people at the IFC who'd had a lot to do with the World Bank.

BECKER: I see.

PFEFFERMANN: And I was one of the few because I had spent all these years at the World Bank, so that enabled me to draw in people and knowledge from both sides, and that was a great advantage. So, for example, I got involved with people in Switzerland at the University of Basel who were very interested in what's known as institutional economics. And I got quite interested in what they were doing. And one professor there, in particular, had done interviews of companies in different countries, asking them basically about their relationship to their respective governments and the pluses, the minuses, what worked, what didn't work and so on, the perceptions. They did this on a shoestring budget through Swiss embassies and so on, so statistically it was very kind of rudimentary, but it showed promise in the sense that there seemed to be a fairly solid connection between how bothersome the government was and investment and growth and so on and so forth.

So it was very suggestive. So I got quite taken by this, and I used my position basically to try to get them some support for doing this on a larger scale, and got them to submit a proposal to the Bank's Research Committee, and they got a grant. And the idea was that they would get out of shoestring and do this kind of survey on a significant scale in a large number of countries.

And we were on the verge of having, I think—they got their grant when the *World Development Report*, the annual *World Development Report* of that year, turned out to be about institutions. And so the two things conflated. They got taken on board. They got lots of resources which they—I couldn't dream of. And the result of this was something called the World Bank *WBES* [*World Business Environment Survey*] or something like this. It was a survey of perceptions by business people of their economic environment of particularly the interface with government.

So there was a long questionnaire. Other institutions, like the African Development Bank—no, not the African Development, but the Inter-American Development Bank and Harvard's HIID [Harvard Institute for International Development], they did Africa. And in the end this was done twice: once for about, I think, 50 countries and the next time for about 80 countries, and it still is the most comprehensive such survey that existed.

BECKER: Now, around what year would this have been?

PFEFFERMANN: Ah, that's easy to check [1998-2000].

And that then—and, of course, the issue of corruption was very prevalent in there, and so that spawned a number of internal discussion papers where the more technical aspects were being aired. The *World Development Report* was more the kind of popularized version. And these people became, in their respective academic circles, quite successful. This became quite an established sub-discipline.

Unfortunately, one of the great failings of the World Bank is a chronic lack of continuity. And there are people like, for example, Carl [J.] Dahlman. I don't know if you . .

BECKER: No, I haven't.

PFEFFERMANN: . . interviewed him. Well, he would be a person to interview. He's at Georgetown now. Carl Dahlman. And he was for a while at the World Bank Institute and developed something which you can still look up, which is www.worldbank.org/kam, which stands for "Knowledge Assessment Methodology." And it's a wonderful tool where you can punch in—basically, it's something that can transform statistics into a very graphic, very intuitive picture.

BECKER: Ah, yeah.

PFEFFERMANN: And so, for example, if you want to compare a number of countries—two or three countries—and want to know, for example, how many computers do they have, how many scientists, this that and the other—it's got to do with knowledge—and how does it compare ten years ago with now, you just click and you see these kinds of cobwebs, which should compare the countries and then where they stand in relation to each other. It's wonderful.

Well, he left, and I don't know if this has been continued or not . .

BECKER: Yeah.

PFEFFERMANN: . . and this is the story of the Bank, that things reflect all too often the interests of an individual. In my own case, I ended my career at the Bank by being director for something called the Global Business School Network.

BECKER: I want to get to that.

PFEFFERMANN: Yup. And that too was—basically disappeared after I left, even though at the management, rhetorical level, everybody said this is the greatest thing since sliced bread. But it no longer had a champion in the trenches and where the budget decisions are made. And so it's gone from IFC, which is too bad, but that's how these things happen.

So in the same way this survey of business perceptions was—it was continued in some countries and not in others, or some Regions and not in others, but you couldn't have the whole picture anymore.

So there was only one shot with 80 countries. And then, unfortunately, something with which I quite disagree, this doing business thing [*Doing Business Indicators*], which has become immensely popular and so on and so forth, took over, and I think the reason is because it's much cheaper. They interview a small number of law firms in each country. We went out and interviewed hundreds of enterprises. So instead of having stories from the horse's mouth, so to speak, you have it from somebody who sits in the capital city and thinks they know what's going on.

BECKER: What's going on.

PFEFFERMANN: Yeah.

BECKER: The intermediary . . .

PFEFFERMANN: It's very different; very, very different.

BECKER: Now, let me ask about this whole notion of the intersection of private sector and development. This came as a revelation in IFC?

PFEFFERMANN: Yes. It—well, it was—no—yes and no. It was one of those things that was never questioned, and it was taken for granted, and people just assumed it was so. And they got away with this for a very long time because of the separation of cultures. But eventually it became clear to them that there were many, many people out there who didn't think like that. And, in fact, going back to the history of the World Bank, if you read the chapter on the IFC which was written by Jonas [H.] Haralz, who was a Board member for a long time (and it's a magisterial; I think it's a 120-page chapter in volume one [Kapur, Devesh, John P. Lewis and Richard Webb. *The World Bank: Its First Half Century, Volume 1: History*, "The International Finance Corporation," pp. 805-899. Washington, D.C.: The Brookings Institution, 1997]) you find that there were fluctuations in the World Bank's attitude towards the IFC on how "developmental" the private sector is. And I think that in the very early years there was some sympathy for that, when they created the IFC and so on.

BECKER: Which was rather early.

PFEFFERMANN: Yes, in 1956. And—but then later on, especially under McNamara, which was very paradoxical since he came from private business . .

BECKER: Private. Right.

PFEFFERMANN: . . he had a very jaundiced view of the private sector. And—but, as I mentioned earlier, so did I, in a way.

BECKER: Yeah.

PFEFFERMANN: But he—he carried it to an extreme. I mean, he blamed the bad income distribution on the private sector and so on. He just saw the negative aspect. And he made some, I think, really stupid decisions. For example, he abolished the Tourism [Projects] Department of the Bank which was doing really good things; namely, integrated tourism complexes where you would have housing for the workers and sewerage and water supply at the same time as hotels. That disappeared, and as a result the—and the reason it disappeared was that there was some politicians on the Hill who basically used their power to screw up IDA replenishments, to push their own agenda.

And one of these agenda was to say that the Bank was financing luxury hotels (and, in fact, that still lingers) and instead it should finance, you know, B&Bs [bed and breakfast inns] or something like this. Go and explain to these people that if a country can make $1,000 a night in foreign exchange, it's better than making $50.

BECKER: Yeah.

PFEFFERMANN: But no way, José.

So, McNamara caved to this, abolished the Tourism Department, and as a result their world is worse off for it. I mean, integrated places like Cancún, for instance, which the Inter-American [Development] Bank financed, have lots of advantages, and the Bank was well-equipped to do that.

Another one is telecom, and this is fascinating because McNamara thought that telecoms were just for the rich. And this is explicit, and every attempt that the Bank made to really push loans in telecom companies, he axed. If you look at what's happening in Africa now, where every second Kenyan has a cell phone and the absolute revolution that this is causing, that people all of a sudden, they've come out of isolation, and then even the poorest people have a way to communicate. How wrong could you be?

BECKER: And the capital costs of wireless is considerably . . .

PFEFFERMANN: Well, that didn't exist then.

BECKER: Oh, okay.

PFEFFERMANN: Fair to say. Fair to say.

BECKER: Yeah. Yeah.

PFEFFERMANN: He was thinking land lines and so on.

BECKER: Yeah. Yeah.

PFEFFERMANN: But even so. So that was under his tenure. IFC didn't grow. It was kept down. And he looked at private investment with the greatest suspicion.

BECKER: Now, what was—when you got to IFC, what would you say their mission—what did they perceive their mission to be? What were they focused on?

PFEFFERMANN: Well, I think it shifted. I think that until Jim Wolfensohn came along, basically IFC believed that its mission was to encourage private sector development in countries. They put a lot of efforts into developing local stock exchanges, for instance, and that this would be conducive to growth. And then eventually the term "growth" became politically no longer correct, and it was all about poverty alleviation, et cetera, et cetera. And this is when IFC found itself in a very awkward position, where they couldn't articulate their mission anymore. And related to development—that's where we helped. And it came about actually as a result of a near-crisis.

When Stiglitz became chief economist, he used to have chief economists lunches—I don't know, occasionally, once a month or something like this—and I remember very well a lunch at which we were standing after lunch and I mentioned the work that we were doing at the time to try and articulate the link between private sector and poverty alleviation, and he looked at me in a very owlish way and disapproving way and said, "There are those of us who think that the private sector harms the poor." And this was in the presence of all the other chief economists, et cetera. "Well," I thought to myself, "if this is the chief economist of the World Bank speaking, what do we think we're doing?" You know?

And I went to see my boss, and this is when we decided formally to try to put something together that would articulate this relationship. And the result—and this was not easy because national accounts are not structured along a public versus private fault line.

BECKER: They're just industry and . . .

PFEFFERMANN: Well, there is government, which is the central government, and then, yes, there's sectors.

BECKER: Sectors, yeah.

PFEFFERMANN: And so the data are poor. And, in fact, one of the things we tried to do for years is, we had—one of our annual discussion papers was called *Trends in Private Investment in Developing Countries*, and we tried to glean everything there was that a few countries were keeping such statistics. And we also used the local staff of the Bank and the Fund in these countries to try and get—and in the end, we discovered that we'd been deceived, that people had been making up the figures, and so we discontinued the series. But just to say that it's very hard to put your finger on private sector, quantitatively.

So we had to use other means. We used what was available, and some countries published numbers on employment in the public sector and the private sector and so on, so we used that and other things. And in the end I got a lot of help for that. It was a project that interested people. David Knox, my former boss, was at the Bank. Richard [C.] Webb, who was president of the Central Bank of Peru and was an old colleague of mine and good friend, and others really helped produce something which anybody could understand, basically, which was a pamphlet.

And then I had a wonderful editor, a lady who was a freelance (I mean, who did jobs for IFC), and she improved what I had written immensely. And it came out and it's called *Paths Out of Poverty: The Role of Private Enterprise in Developing Countries* [Washington, D.C.: International Finance Corporation, 2000], and it's a 20-page little booklet with pictures and everything, which is really meant for non-economists. And I'm very pleased with what came out. I think it was a very, very thoughtful condensation of the thinking, and nobody had ever done this. This was entirely innovative. It was non-ideological. It was trying to find empirical evidence and then arguments to that.

BECKER: Now, in the time, though, that you were at your job at the IFC, its mission did begin to be . . .

PFEFFERMANN: To shift towards poverty alleviation.

BECKER: To shift certainly, yeah.

PFEFFERMANN: Yes.

BECKER: And it shifted towards certain sectors.

PFEFFERMANN: Well, it shifted. There were always pressures geographically to do more in Africa, and that was very difficult. And the Board would always complain that there wasn't enough done on Africa.

Then there was an annual requirement that we inform the Board about the development impact of Africa, which is part of the same ball of wax. And it was our responsibility, basically, to produce these . .

[Interruption]

PFEFFERMANN: We produced these annual reports to the Board on the development impact of IFC. And this was a very good . . .

BECKER: Now, what year would this be? This would be early '90s, I guess. About that?

PFEFFERMANN: No, no, earlier.

BECKER: [Inaudible]

PFEFFERMANN: Yeah, starting then. Yup. And so this was a very, very—it was uncharted waters to a large extent, and a lot of my really brilliant colleagues contributed to advancing the frontier. One in particular is Frank [J.] Lysy, who is now the chief economist of MIGA [Multilateral Investment Guarantee Association], and he developed a whole conceptual framework which we used for this, and it's something good.

For example, there's a Harvard Business School case that he co-authored with a professor Ben [Benjamin C.] Esty at Harvard Business School, taking the case of a Tate & Lyle sugar refinery in Vietnam and asking the question: What is the impact on poverty? And it's very interesting.

Now, the problem with it is that if you want to do this, it's very time consuming. It's a real piece of research.

BECKER: Mm-hmm. It's on the ground kind of—yes.

PFEFFERMANN: Right. So if you do a hundred investments a year or so, which is what IFC used to be doing, you couldn't possibly do that for all hundred, and so eventually what happened was that we got disempowered and it became much more of a kind of PR exercise. And people started talking about unprovable generalities and statements, which then substituted for things that you could verify.

BECKER: Mm-hmm.

Now, you've mentioned Wolfensohn on a couple of occasions.

PFEFFERMANN: Yes.

BECKER: Do you see him as being very important to IFC?

PFEFFERMANN: Well, not to IFC so much as to the Bank.

BECKER: Of course, to the Bank.

PFEFFERMANN: I see him like [Mikhail S.] Gorbachev. I think the two people had a lot in common. Both visionaries. Both wanting to change the world. Both very successful at undoing, and both totally incapable of constructing.

And I think the collapse of the Soviet Union is very parallel to what happened to the World Bank under Wolfensohn. He basically removed the skeleton of the Bank and also removed a lot of the kind of "hard" disciplines, like economists and so on, brought in a lot of fluffy social scientists, and got rid of a lot of senior people, brought in a lot of youngsters. And you could defend this in terms of change and renewal and et cetera, et cetera, but—and the very positive aspect was that it opened space for initiatives like our Business School Initiative, which you couldn't have dreamed of before.

The Bank was very structured, very organized. It was a very bureaucratic outfit. Wolfensohn literally disintegrated it. It was a process of disintegration. And he reigned by terror. I remember meetings where he would utter things which everybody in the room knew were false, but people just looked at their shoes because they knew that if you spoke up and the guy was in a bad mood, you wouldn't last very long.

And there were several examples of this. Joe [D. Joseph] Wood is one in particular. I don't know if you've interviewed Joe.

BECKER: No.

PFEFFERMANN: Oh, he's a prince of a guy. He—I don't know what he's doing now. He was then vice president for Asia or South Asia. He had been in charge of the whole financial sector of the Bank, the finances of the World Bank and so on. A great guy. I think he ended up after he left the Bank being involved with an NGO in Tibet or Mongolia that was encouraging people to make—to use yak hair to make expensive scarves and stuff. I mean, he's just a wonderful, very, very lovely person and ultra smart.

So when Wolfensohn came in, he met with each of his new dominions, and one of them was Joe's department. I think it was South Asia. And Wolfensohn started using four-letter words.

And Joe Wood said, "With respect, sir, this may be the custom in Wall Street, but we're not used to this," or something like this. Well, he was out within three months.

So Heinz Vergin, who ran India, is another example. He went with Wolfensohn to India on Wolfensohn's first visit as head of the World Bank to India. Wolfensohn gave a speech. He asked Heinz what he thought, and Heinz said—very frankly, he said, "Oh, I thought the second part was excellent," or something like that. Well, he lasted two or three months and so on. And they had other differences as well.

He couldn't brook differences. He just couldn't. And it could have worked if he had had—well, he was also incapable of administrating, because he came from a tiny firm in terms of numbers of staff and had never administered anything. And he thought it was his—he had this preconception that the World Bank were a bunch of lazy bureaucrats—over fed, over paid, over everything—and he was going to break their back.

And, in fact, I had the dubious pleasure of being at a dinner party with the person who had been interviewed by him as his chief of staff when Rachel Lomax got the job, but she was another candidate. And she told me that she spent about an hour with him on Wall Street, when he was still there, and he used three-quarters of the time to fume against the Bank and how he would break its back and kind of mold it in his way, et cetera.

So he came with huge preconceptions. And, as you know, he ended up having to make peace with the Bank after the business of the glass wall and so on, but it took him three years, which—or four years--which he wasted, basically, where the relationship between management and the staff were just plain bad.

So, like Gorbachev, he tried to reform the Bank. He atomized it. And it's only, I think, after he left that it—I don't know if it's come together by now, but probably it has to some extent. But everyone was just doing whatever they wanted under Wolfensohn. It was *anomie*.

And he also yielded to pressures by NGOs to the point that, for example, lending for electricity, which—or electric power--which used to be huge, like, I don't know, 15 or 20 percent of the total portfolio of the Bank, dwindled to about 2 percent because there was so much opposition to dams and so and so forth. And instead, he lent a lot to things where you really didn't know where the money was going, like empowering women in the *altiplano* or something like this. I have nothing against it, but whether you should borrow from the Bank at 6 percent to do that in foreign exchange, that's the question.

So he left a legacy, I think, of, on one hand, more innovation at the grassroots level in the Bank, but also a very demoralized senior staff and an eviscerated middle management.

BECKER: Now, you—what you're suggesting is that he cut a lot of things loose and then couldn't pull them back together?

PFEFFERMANN: Yes. Yes.

BECKER: Now, is IFC one of the things that was sort of cut loose?

PFEFFERMANN: Not so much. He tried very—sorry, the thought I was trying to complete is that if he had been able to have an Ernie Stern to run the Bank for him, that could have worked—or John [H.] McArthur.

BECKER: Mm-hmm.

PFEFFERMANN: But he couldn't delegate, so that never worked. He had to do everything himself, and I've seen him pretty close up. I saw him, and basically he was the kind of guy who would harpoon anybody who happened to be in his field of vision and say, "You deal with this issue. Go and fix it." You know, no matter where the person fitted in the organization.

So, IFC—his main pitch about IFC was to try to bring it in line with the Bank, and this is where this whole thing about poverty alleviation . .

BECKER: Right.

PFEFFERMANN: . . et cetera, started coming in. And IFC did that, I think, kicking and screaming, and has done so to some degree.

BECKER: Mm-hmm.

Now, you talked about the people who led IFC while you were . .

PFEFFERMANN: Yes.

BECKER: . . you were there. Of those, who would you think of, well, most positively.

PFEFFERMANN: Oh, Bill Ryrie.

BECKER: Ryrie.

PFEFFERMANN: Ryrie and his inner circle of top—his vice presidents, some of them.

BECKER: Mm-hmm.

PFEFFERMANN: For instance, Wilfried [E.] Kaffenberger was a fantastic guy, and he's another person you might interview if he's willing to speak. He's at Moeen [A.] Qureshi's outfit, Emerging Market Partnerships, or whatever . .

BECKER: Oh, right, yeah.

PFEFFERMANN: . . and he deals with . .

BECKER: I'm aware of him.

PFEFFERMANN: . . East Asia. He's one of the sharpest guys I know. East German. His family managed to flee at the risk of being shot, when he was a child. He was a chemical engineer, I think, by training, then took a business degree, and he has a mind like a steel trap. Very interesting guy. And he, I think—I mean, the difficulty in running a development agency, I think, is the fundamental tension between rigor and discipline on one hand and the need for innovation on the other. And he was very much on the kind of rigorous side.

BECKER: Mm-hmm.

PFEFFERMANN: So—and then—well, he was the main pillar really, but there were several others who were very, very good in those days.

One of the persons I have a huge respect for is Assaad Jabre, who was short listed to . .

BECKER: He has been interviewed.

PFEFFERMANN: . . yeah, he was short listed to become executive vice president of the IFC. And then when they gave it to an outsider, he had told everybody that he had made up his mind: he would not stay, and he left. And I think it's a huge loss to IFC.

BECKER: Yeah. A colleague of mine did that interview.

PFEFFERMANN: Yeah. A great guy. Very impressive. Very impressive. And interestingly there were several of these people who are very impressive at IFC who were all personal assistants to the executive vice president. Edward [A.] Nassim is another one, who just retired. He ended up as vice president for—well, his main job was—he was the guy who, with Kaffenberger, did all the work in Russia, and then the former Soviet Union after the collapse.

BECKER: Mm-hmm.

PFEFFERMANN: And that was really something. This is, I think, one of the most wonderful and successful big things that IFC put on.

BECKER: Nassim?

PFEFFERMANN: Yeah, Edward Nassim and Wilfried Kaffenberger, those two. If you want the story of post-communist Russia, Soviet Union, this is it.

BECKER: Okay.

PFEFFERMANN: I mean, there's a picture, for example, which I think was on one of the annual reports, where they're in their Russian hats and their *shapkas* in the snow in Red Square with the IFC badge or something. And initially they gave IFC—they leased IFC offices which used to be the headquarters of the Central Committee of the Communist Party of the Soviet Union, you know. And they were in on the first auctions in Nizhni Novgorod and all sorts of—it was fascinating. And they really did something.

For example, in Ukraine, they had a huge technical assistance program, which also existed later in Russia, which was financed by USAID and by the U.K. Knowledge Fund or something like that but was administered by the IFC. And they did small-scale privatization of bakeries, of little stores, of this, that and the other, overwhelmingly through local staff, and it's had a terrific impact, a terrific impact.

So these are two people who—two or three people who were outstanding, I would say.

BECKER: Now, one other thing you talked about a little earlier that suggests to me talking to . .

PFEFFERMANN: And Doug [Douglas] Gustafson is another one.

BECKER: Yes.

PFEFFERMANN: He was involved in this, and he was particularly in the Balkans. He was—unlike Hillary [Rodham Clinton], he really—he was staying at a hotel where all the windows were shattered, and they had, you know, plastic rolls to keep the cold out.

[Laughter]

BECKER: Okay.

You were talking a little earlier about the IFC looking into the whole question of, for instance, health care . .

PFEFFERMANN: Yes.

BECKER: . . and how the understanding developed that the private sector was, in fact, very important there.

PFEFFERMANN: Had a role, yes.

BECKER: Now, there are other areas as well. Education . .

PFEFFERMANN: Yes.

BECKER: . . and environment, I guess.

PFEFFERMANN: Yes.

BECKER: Now, could you sort of trace how that began, how it happened?

PFEFFERMANN: Okay.

BECKER: Because that's not exactly the view most outsiders have of what the IFC is about.

PFEFFERMANN: No, that's true. I think the—here the guy who did most is Peter [L.] Woicke, when he was EVP [Executive Vice President] of IFC.

BECKER: I've interviewed him. I have, yeah.

PFEFFERMANN: Yeah. And I was always thoroughly skeptical of his approach. I thought it was largely public relations. I mean, all this business about turning IFC green and corporate social responsibility and all that stuff. Economists are very skeptical of the [inaudible] of these things . . .

BECKER: He's a banker by trade?

PFEFFERMANN: Well, yeah, he came from [J.P.] Morgan. And this is another thing that—you see, Ryrie was the last one who was really in a high government position and knew how to handle power. All his successors were—well, Jannik Lindbaek was, I think, chairman of this insurance company [Nordic Investment Bank]. But then Woicke was an employee at J.P. Morgan. He was not in the top rung, so went down one notch in terms of the kind of connections you have, et cetera.

The one that we have at the moment [Lars H. Thunell] was—he was running a top bank in

Sweden [Skandinaviska Enskilda Banken AB] and he does have a lot of social connections with, you know, top CEOs and probably the Queen of Sweden and the rest of it, which helps.

BECKER: Yeah.

PFEFFERMANN: I mean, this is good for the institution. But for a while, it was sagging there.

Now, so—and Peter was also one of the most disorganized EVPs we've ever had, so I was very dubious of his pushing this green agenda. I can see that it was certainly a political response to the Green Party in Germany and so on and so forth. He was doing it—it looked very political, because in the end I don't think that IFC was able to enforce environmental standards in the financial sector, which, quantitatively, in those days that was a good third of everything that IFC was doing, was credit lines to banks in Brazil and so on and so forth. And the reality in those days was that these banks would get a two-day seminar on how to appraise their borrowers and then IFC said fine. They're being environmentally clean.

Then came this Equator Principle and there again, to this day, I have huge doubts how much reality there is in this and how much PR. In other words, what the degree of scrutiny actually is and the willingness to say no if it doesn't meet standards. However, it really saved IFC in way, because it—all of a sudden IFC, instead of being the thorn in people's foot and being at odds with the going trend, became a leader in this area. And to my surprise, a lot of the clients of IFC—I thought that the clients would just say we're not going to incur these costs. I mean, forget it. We'll go elsewhere. But they found that, for one reason or another, it helped their brand name and it helped them. So this paid off. That's on the environment.

Health and education has been an unmitigated disaster. And, in fact, there was a meeting chaired by Assaad Jabre, one of the annual budget reviews, and I happened to sit in for some reason, where the director of the department was told, "Look. Either you come up with a strategy that makes sense or we abolish the department." I mean, it was that bad. I've never seen such a tough kind of meeting. And the reason is very simple. Social sectors are very different from manufacturing or financial sectors in the sense that, one, you have to be crazy to borrow in foreign exchange if you run a school or a hospital in Pakistan or wherever unless you're sure to be able to convert your rupees into dollars. And so the risk to the borrower is huge. So demand has been very limited. They're chasing deals all over the world, trying to find some. If you look at the number of deals they've done, there are very, very few. It's a small department. It never really took off. So, that's one part.

The second is that these are really public goods, unlike manufacturing roller skates or whatever. And, therefore, you can only operate in these waters if you are intimately connected to government—ministers of education; I mean, the people who matter in each . .

BECKER: [Inaudible] the health, yeah.

PFEFFERMANN: . . country. Yes, or health. And they never did that.

So there was one guy there called Ron [Ronald Francis] Perkinson, who is a marvelous guy. He is a Kiwi. He's from New Zealand. He's now retired also. He ran a big private security firm, I think, in New Zealand and Australia. And—but he's, by education and profession, he's an educator. And when New Zealand privatized its education system, apparently it went totally off the rails at one point because of something wrong with the financing. I don't know what. They called in Ron to fix it. And so he had hands-on experience of fixing this kind of thing, did a wonderful job, and then he wanted to kind of give back to society; came to the IFC as a very senior guy in his late fifties. And he's an extraordinary guy. He knows every minister of education in the world. He and Carl Dahlman have gone to China to talk at the very highest levels with ways to experiment and innovate in higher education and so on. This guy is a world-class person. His director never listened to him, never talked to him. He sat in a little office, totally isolated.

So this is a bad show. And the result is you can look at it statistically, at the number of deals that they've—it's remained—it has failed to take off. And good people who were in this department left.

BECKER: Now, what about another initiative at this period of time? I guess from your time there was the Small and Medium-Sized Businesses, and the emphasis on that.

PFEFFERMANN: Yes.

BECKER: Or Enterprise—SME [Small and Medium Enterprises].

PFEFFERMANN: Well, that, too, yes. That, too, to my mind, is a bit of a quixotic fight or enterprise or struggle. People have tried for the last 50 years to—every politician wants to help small businesses, including in this country.

BECKER: Yeah.

PFEFFERMANN: And they've tried just about everything. Some people believe that lack of financing is the main problem, so they've set up finance companies. Then, more often than not, these finance companies are driven by governments or owned by governments and then they make political decisions. Or people think they don't need to repay their loans because it's from government. So then people say, no, it's not that. It's the business environment. This was doing business, so they start talking about reducing red tape, et cetera, et cetera. And that is pushing up Sisyphus' rock, essentially.

BECKER: Yes.

PFEFFERMANN: I mean, in some countries it's being done not because the Bank is pushing, but because they see it's good for them. Kenya is a case in point.

But—so that doesn't get you very far. Then they had these service centers where one-stop place where a small entrepreneur can come and get advice and technical assistance and financing and this and that. Well, I went to see the one in Nairobi. It's a shiny building, which looks totally intimidating, and then I don't think that any small entrepreneur would want to go there. I mean, it's not the right thing.

[Laughter]

So then there's, of course, microfinance, which addresses a slightly different market because this is really small, but if a microfinance institution is encouraged to grow, then it can really kind of help the medium segment as well, and I think that's probably the best way to do it.

It's gone through constant changes, and I gather it's again been reorganized, the SME [Small and Medium Enterprise] Department, at the IFC. Now Rachel Kyte has been named Vice President for Environment and SMEs [Environment and Social Development] and [inaudible] things. It's a—I think this is one of those issues which no country in the world, not the U.S. or anybody else, has figured out what the best mousetrap is. But it remains on the agenda, and every politician, this is his first question.

BECKER: Yeah.

PFEFFERMANN: "You have to do something for our small enterprises." And <u>what</u> then is the question. What do you do?

The other thing which incapacitates IFC is, of course, they have statutory and legal requirements which are tailored to big companies, and sometimes it's hilarious. I mean, I've seen a leasing company in Kazakhstan or someplace like this, which was very small—it was a small enterprise—being asked to review a 120-page legal document in English, you know. And this is just one of them. And there are many. So how can a small firm possibly go through these hoops? It's—and you can't remove the hoops because this is what the Board of Directors requires and so on. I don't think that they found a really effective way to help small enterprises.

BECKER: Mm-hmm.

PFEFFERMANN: I mean, there may be exceptions here and there.

BECKER: Right. And do you think, though, that the microfinance might be a [inaudible]

PFEFFERMANN: Microfinance is better, but microfinance, if it's well done you need some subsidies initially to train people, set them up, et cetera, but it's very profitable because they can charge high interest rates, because the alternative: the money lender.

BECKER: Right.

PFEFFERMANN: So they can charge very lucrative rates and should grow by themselves. And, in fact, at the moment, there is a kind of—microfinance has become a fad for private philanthropists, and they all want to pour grants into microfinance institutions. Well, that's the last thing you want to do, because that discourages them from becoming sustainable enterprises.

And there is a wonderful guy—he's another person you might interview—Damian von Stauffenberg. He's a distant relative of the . .

BECKER: Of the what?

PFEFFERMANN: . . the [Claus Schenk von] Stauffenberg.

BECKER: Yeah.

PFEFFERMANN: Yeah. He lives in Washington, Damian. And he runs a little outfit called MicroRate. And it's very ingenious. It rates micro finance outfits.

BECKER: Oh.

PFEFFERMANN: It's a ratings agency for microfinance.

BECKER: Now, what—he had been with the Bank?

PFEFFERMANN: Yes. Oh, yeah, yeah, yeah. And he was the head of the Staff Association for a while. He's one of those very public spirited people. He was at the Bank first and then at the IFC. So, he would be good material to interview.

BECKER: Okay.

PFEFFERMANN: And he's a guy of total moral rectitude. I mean, a great guy. And he published an article together with somebody else making just this point, saying that you're not serving microcredit institutions by drowning them in grants.

BECKER: Mm-hmm.

Well, the other is that, you know, if there is an advantage to the discipline of the market, if you provide loans and continue to provide loans that don't have that discipline, then you lose the meaning of—the . .

PFEFFERMANN: Yes.

BECKER: . . benefit is lost.

PFEFFERMANN: Yes. And this always goes to this other inherent dilemma of lending institutions, which is the pressure to lend versus the willingness to say no.

BECKER: Yes. Yeah. Yeah. Having said all of this, what role do you still see for the IFC?

PFEFFERMANN: Oh, I think the IFC can play a major role in terms of reducing risk for—first of all, they're there in bad times, and that's terribly important. They're not fair-weather friends. If you have a relationship with the IFC, it may be like now that money is cheap and there's a lot of money pouring in, but tomorrow there may be a crisis and IFC will be here to help

And one example of this is Korea, where IFC had basically stepped out and had been out for many years but still had relationships and very good relationships and people who remembered IFC with great respect. So when the '97 crisis hit and all of a sudden Korea found itself in a hell of a mess, very intelligently IFC rekindled these relationships, and found itself hugely useful in Korea. So this is one example.

Another is that I do think that having an institution that operates worldwide and that focuses on what works, what doesn't work, and capital markets and banking and so on and so forth is a good thing.

And then the last thing is, if you believe in it, the environmental dimension, where IFC has a clear leadership. None of the other development agencies have that. I mean, the European Investment Bank doesn't have an environmental staff. None of the other ones do, and IFC, of course, is more expensive, for instance, than the European investment banks, so they have to compete on other grounds, and it's—I think there is a role for IFC.

Now, how big should IFC be is a different question. How big should the Bank be? These are questions which haven't been answered and will never be answered because you can't reduce the staff. But, I mean, when I joined the Bank, it had 1,800 staff members or so. Now, it's 13,000 or whatever. The IFC had 600 when I joined, and it now has over 3,000, and you really wonder—and if you look at what really gets achieved per person, it's gone down, not up.

BECKER: Now, the IFC I always saw as also sort of an educational institution, in the sense that it taught people how behave in a market environment or think in terms of markets. And as economies change, I mean, obviously, India, China are the big examples, but you mentioned Kenya or Chile. Attitudes towards markets, understandings of how markets work, does IFC still have a role in that regard? It seemed to me that IFC's . .

PFEFFERMANN: I don't think so.

BECKER: . . its great advantage was that it was going into places where people didn't always have this kind of market environment.

PFEFFERMANN: I don't think so. I think that there're not too many countries where governments are convinced now that the private sector has to be developed and so on. I think this is a fact.

BECKER: Yeah.

PFEFFERMANN: So no, I think people have got the point that most governments are bankrupt, except now with the commodities boom, of course, it's . . .

BECKER: Some aren't.

PFEFFERMANN: Yes. But no, I don't think—I think if you put all the cabinet ministers of the world in a room and then asked them that question, most of them would say no question, no-brainer.

BECKER: Yeah.

PFEFFERMANN: Absolutely.

BECKER: Yeah.

PFEFFERMANN: Private sector.

BECKER: Yeah. Yeah. So what role, then, does IFC play in that environment?

PFEFFERMANN: Well, it is difficult for me to say because I really—I see IFC as a very opportunistic institution, which it has to be by definition because the Bank can decide what it wants to do together with a—you're a government official; I'm the World Bank. We decide we're going to do this, this, and this. Fine. IFC is always a minority shareholder, so there have to be majority stakeholders who put the money on the table, and so, by definition, IFC can inspire, but it can't really push the way that the Bank does.

BECKER: It could be a dealmaker, but not . . .

PFEFFERMANN: It could and it often is, where risks are high. For example, in Nigeria, IFC is a five, or was, a five percent investor in a big—I think it's a gas complex or something in the oil industry, together with some foreign company (I can't remember; I think it was ENI from Italy or whatever it was) and the Nigerian government. And it's key for investors to know that there is this slice of five percent, because no government wants to antagonize the World Bank. So this is basically—what they buy is comfort. And that works. It's a perfectly legitimate role.

That works well.

I think for a while IFC really had an edge in developing capital markets and stock markets. And there the guy to interview is David [B.] Gill. David Gill is a Canadian who lives on the Chesapeake Bay now—he's retired—who did very well himself in ventures. And he was the first—he created the Capital Markets Department of the IFC. And so it's—he started it all, at the time when economists, including myself again, thought that stock markets were just kind of—shifted savings from one side to the other, but they didn't create wealth. And it's . .

BECKER: That theory's around again.

PFEFFERMANN: Yup. He did a very good job and—including—his deputy at one point was Antoine [W.] Van Agtmael, who coined, while he was at the IFC, the expression "emerging markets."

BECKER: Oh.

PFEFFERMANN: So I haven't answered your question because I can't answer it, but I honestly don't think the IFC is playing a huge leadership role. I think it's—anybody who thinks this at the IFC is deluded.

BECKER: Now, what about Africa, an area where with all of the, you know, private capital sloshing around the international economy, it doesn't seem to end up heavily in [inaudible], with the exception I guess the Chinese now . . .

PFEFFERMANN: Well, look. First of all, there's a misapprehension here. Africa gets about two percent of foreign direct investment in the world, so it's got two percent. And that was before the Chinese influx . .

BECKER: All right. Yeah.

PFEFFERMANN: . . so this was like four or five years ago. So here is everybody wringing their hands saying there isn't enough and then Africa is being ignored, et cetera. Well, the total GDP of Africa is about the same as Belgium, and it's one percent of the world. So if you want to look at it that way, they're getting twice . .

BECKER: Twice.

PFEFFERMANN: . . their share, to begin with.

Now, it's very concentrated. It used to be very polarized in mining and oil and gas, and now Africa is changing. And you've got—first of all, governments are more favorably inclined to the private sector, but also they've been caught by surprise, for instance, by the cell phones. And no government expected the cell phone explosion. If they had, they would have stopped it, because they would have wanted to capture all of the . . .

BECKER: [Inaudible]

PFEFFERMANN: Yes, to get all the money. But what happened, just like in India with Bangalore—Bangalore developed without attracting the attention of the bureaucrats in Delhi too much. And by the time they were hugely successful, no politician would dare mess them up because there was nothing to be gained by doing that. So it happened under the radar screen, and the same in Africa, to some extent.

The investment areas—cell phones, telecom, banks, tourism, hotels, stuff like that, beverages--there are a lot of highly profitable investment opportunities. And the reason for that is that because most people don't know much about Africa; they think the risks are huge. And indeed, if you or I went in cold the risks are huge. But if you know the lay of the land you can operate prudently, and because it's a high risk environment, profit margins are very high.

So, for example, the CEO of Barclays Bank a couple of years ago said that they have the highest margins in Africa. The same is true I think for beverages for Diageo and firms like this, Guinness and so on and so forth. So there is much more investment.

There is an outfit in London called DRI, Debt Relief International. It's a kind of non-profit organization. They have done surveys, financed by the Brits, to try to capture—to get better statistics about foreign direct investment in poor countries, Commonwealth countries. So they'll go to a place—well, Ghana for instance. They went to Uganda and so on, and almost invariably they found that if you talked to the firms, you get 50 percent more or even double the amount of foreign investment that the government declares, and the reasons are very simple: one is the central bank doesn't know how much gets reinvested, for instance, or the statistical office. Two, you have lots of financial transactions of transfers between home headquarters and local companies, which get—either the government doesn't know about or it gets treated in some other way or it gets classified. And the net of it is they found that profits are higher and the inflow is higher.

So—and then the third thing is that with the Chinese, as you say, and with the commodities boom now, it's just taking off, because some countries are oil importers and so on, and they're suffering.

BECKER: Yeah.

PFEFFERMANN: But, by and large, I would say the idea that there's no or very little foreign investment going into Africa is a myth.

BECKER: Well, there are key countries that I guess are growing much more quickly . .

PFEFFERMANN: Yes.

BECKER: . . than others.

PFEFFERMANN: Yes.

BECKER: If you focus on those key, if you just look at them . .

PFEFFERMANN: Yes.

BECKER: . . and then their performance is, you know . .

PFEFFERMANN: Yes.

BECKER: . . you can find comparable places in Latin America.

PFEFFERMANN: Yeah. I don't think that Niger and Chad are doing very well.

BECKER: Yeah. Yeah.

PFEFFERMANN: That's right. That's absolutely true.

BECKER: Yeah.

Now, your interest in the whole question of absorption . .

PFEFFERMANN: Yes.

BECKER: . . how did that come about? I mean, [inaudible]

PFEFFERMANN: Well, you know, this really started with a person called Bob [Robert R.] Miller, who is the sweetest man in the world. He an economist who is a Stanford Ph.D. He also went to business school. He taught. He was an academic. He was for a while, I think, an associate dean of one of the larger business schools in Texas. And then he retired from that and came to the IFC.

And he was introduced to me by a friend and former colleague called Dale [R.] Weigel, who was the head of—I don't know if you've come across FIAS. FIAS is one of the very good parts of the IFC. It's Foreign Investment Advisory Services. It's great. And Dale Weigel—basically, he was the head of FIAS for its first 10, 15 years or whatever.

So Dale introduces me to Bob, and for some reason, I convinced Bob to come and join our

Economics Department. So—and he was always a consultant because he had passed the age where you could hire regular staff. And this man is an absolute blessing. I mean, he's a very quiet, low-key guy, very smart, very nice. And he came up with the idea one day. He said, "Look. Wouldn't it be a good idea to have a refereed journal called something like the *IFC Review* or something like that, which would be comparable to *The World Bank Research Observer*," or whatever the name of the other one is, "and would bring together business school faculty, north and south, to contribute articles and so on, and then they would form networks," and then so on and so forth?

So I thought, "Great idea." And the underlying thought was that IFC had a lot of knowledge of business but had never really kind of done anything to encourage business education.

And so we wrote a proposal to do that. It was axed in no time at all by Will Kaffenberger, who basically said, "Look, this is going to cost a lot of money. It's not going to earn revenue," which is true. IFC was a very anti-intellectual—and probably still is—outfit. And so that was the end of that.

And then years later, 10 years later, Frank Lysy, whom I mentioned earlier, joins my department, and I was so glad to have him. I had never believed my luck. He's one of the best economists in the World Bank. I would rank him one of the best 10 economists of the whole World Bank. And I meet him on the street one day and then tell him we have a vacancy, and then I was totally astounded. He accepted. Later on, he told me, you know, he was running an outfit of, like, 40 or 50 people in the ECA [Europe and Central Asia] Region of the Bank. And he said, "I was working on process issues 95 percent of the time and substance maybe five, if I was lucky." So, he came to me, and it was no bureaucracy, practically pure what he wanted to do. So that's why he came, which was great.

And so I mentioned this idea of Bob's to him, and we started chatting, and I'm a very kind of intuitive person, and I'm not very analytical. He has a very analytical mind and is great at conceptual frameworks and stuff, and so he created a kind of a two- or three-page concept paper. And this was really the idea of the Global Business School Network, to have a circle of top-notch schools that would radiate out and share information and knowledge with schools in developing countries and bingo! And do capacity building, basically.

And so I had six people then, I think, and I had talked to Assaad Jabre and others and said, "You know, we'd like to do this."

And they said, "Okay. I mean, it's your budget. You can allocate part of it to that."

And we allocated two people to this, basically. And this is how it began around 2001, 2002, and we met with, I think it was nine representatives of nine U.S. business schools in New York and put this to them. And they were very skeptical. They had all had . .

BECKER: Bad experiences.

PFEFFERMANN: Well, good and bad experiences and basically—my favorite story is a guy called Joe [Joseph] Massey (and we became very good friends) who ran the Center for International Business at Tuck [School of Business] at Dartmouth. And he had worked for years—Vietnam is his particular interest, and he had worked for years trying to set up a business school in Vietnam, and then the government clamped a ceiling on faculty salaries. And in Joe's words, he said, "My entire faculty became Volvo dealers."

[Laughter]

BECKER: Yes.

PFEFFERMANN: But they were intrigued enough by the concept, and they said, you know, I mean, "We have nothing to lose. And let's try it."

And so we were encouraged by this. Then we found some European schools that joined as well.

And then the issue was trying to find funding for some projects to test. So I managed to get a grant from the World Bank's Research Committee at the time to do a survey of business education in Africa. Nobody had done that. And Africa came up. Frank Lysy wanted it worldwide. And he was right, but I figured that to get funding, you have to have Africa. Nobody is going to fund it for India or for China.

So now were looking for funding. And we did this survey of business education in Africa that was done by a group of graduate students of the University of Michigan Business School. And that was the first time that some basic data were put together on, let's say, the 20 or 25 best business schools in Africa. And then we started saying, "Okay, well, these 10 are pretty hopeless, but let's try to see if we can work with the other ones."

And then I—we asked each of these schools to produce a concept paper, one page, two pages, basically saying where do you want to be five or ten years from now and how do you think that external mentors could help you get there.

So we got a few of those. And then we said, "Okay, we don't have funding, but here is a foundation proposal. This is what it looks like—Ford or Rockefeller proposal." You've seen those.

BECKER: Oh, sure.

PFEFFERMANN: They're fairly meaty documents, like 20 pages single-spaced with lots of numbers, and we said, "Look, guys, we have to go out on your behalf and raise funding, so we need a document like this. And will you please try to translate this lovely vision paper you've written into that."

Well, to our amazement, two months later, we had five of those that weren't half bad. And that shows . .

BECKER: That there was . .

PFEFFERMANN: . . the desire to do that.

And so we started interacting with these schools. In the end, it went down to four. And I had no luck at all in getting funding from the outside, from foundations, from companies, and we tried, we tried everything.

At the time foundations were very much caught up in this "we want to help the poor. We don't want to help . .

BECKER: Business.

PFEFFERMANN: . . business schools of the elite kids." And it did no good to tell them we are teaching people how to fish, not giving them fish. It was just not on. So in the end, what I did was really to raise expectations on the part of these Africans who were the schools by having them almost signing agreements with quarterly deliverables, et cetera. I mean, we had elaborate project documents with these four schools. And in the end, the IFC relented and said, "Okay, don't waste your time going around there. Let's see if we can prove the concept, and here is enough funding for doing four pilot projects."

And that's when we started working with one school in Nigeria, one in Ghana, one in Kenya, and one program that was involved quite heavily at Harvard Business School and was based both in Nigeria and South Africa, and that was a one-week faculty training program, mentoring program on case teaching . .

BECKER: Studying. Mm-hmm.

PFEFFERMANN: . . for about 60 faculty from all over Africa. And in May—next month—they're going to run the fourth one of those. So this is great. It's taken off.

The pilot projects were evaluated last year and were found to be quite successful, with the exception of one which didn't really work, which was a government university. All the other ones were private.

BECKER: Private. Huh!

PFEFFERMANN: Because they just don't have the flexibility. They have too many rules and .

. .

And then the thing spread. And I hired a very dynamic young guy who went over to—he went to the Bank and he was a great salesman. And so this was the time when IDA [International Development Association] started working together with IFC on common programs for small enterprises and we managed to graft components of what we were doing into some of these credits.

And, for example, in Kenya, we went from working with one university to working with four. And just to give you one very, kind of graphic result: there was no teaching case in Kenya. All the teaching was traditional—you know, English lectures and people taking notes and so on. So we mentored professors at this one school to write cases of local companies (which were more relevant) and to teach them—mainly to write them, actually, and then through IDA spread this to three other universities. Today there are about 130 Kenyan teaching cases. And this is the result of this effort. It's been very gratifying, very gratifying.

Another byproduct which I'm very proud of and very pleased with is we had a number of workshops that brought together deans of business schools in Africa that mainly, basically, never talked to each other. And they discovered—surprise, surprise—lots of common problems.

BECKER: Yeah.

PFEFFERMANN: Number one is autonomy from their universities, and so on.

BECKER: Yeah.

PFEFFERMANN: And so they decided to create an association of African business schools, and this has been up and running now over two years. It's doing very well. And it's the first time you get some benchmarking, quality benchmarking among African universities, and I'm absolutely thrilled, and we have a partnership agreement.

Now my own little initiative, the Global Business School Network . . .

BECKER: Right. Now that starts in '03? You leave . .

PFEFFERMANN: Yeah, more or less.

BECKER: You leave and . . .

PFEFFERMANN: No, no, no, no.

BECKER: You leave being chief economist.

PFEFFERMANN: Well, I was fired . .

BECKER: Oh.

PFEFFERMANN: . . basically, when Michael [U.] Klein was hired.

BECKER: Oh. Oh, I see.

PFEFFERMANN: It was a little later, actually. And I had a 15-minute interview with Peter Woicke, who said, "By the way, you're no longer chief economist." It was—his bedside manner was proverbial.

And so we went through many crises when we thought we had no budget—and this is when John McArthur proved to be very helpful: in fact, key. He got us on to Wolfensohn. We got some funding from the president's contingency fund. As a condition, IFC had to match that. So we kind of—but we wasted a lot of time trying to just get our budget. The secret was always to remain below the radar screen.

And the reason we decided to create this non-profit was a Swiss philanthropist whom I met, and with this concept paper that Frank Lysy had concocted, and I asked lot of people—I asked a lot of people for comments. And this guy said, "Well, when are you retiring?"

And I said, "Why are you asking me this?"

And he said, "You know, as a philanthropist, this is a long-haul capacity-building project. I wouldn't put a dime into it unless I knew there would be continuity of leadership. Furthermore, bureaucracies being what they are, they might very well dump this thing," and so on and so forth.

So I thought to myself, "Well, that makes sense."

So we basically innovated working with the lawyers at the IFC, et cetera, to create this NGO, which was created while I was still at the IFC, so it ran in parallel, basically. And this was done entirely under the radar screen. I mean, I got the verbal approval from Peter Woicke, who I don't think knew what I was talking about, and then I used this to go to the lawyers and say, "Yeah, yeah, it's okay," and so on.

It was a real entrepreneurship venture. And it turned out extremely well. And I'm thrilled that I did, because now IFC has discontinued the program. And if you go to the GBSN Web site at the IFC, you'll see a page now which says this is the first successful spin-off of a non-profit that the IFC has done and henceforward go there.

BECKER: So.

PFEFFERMANN: So it's—I'm very happy about it.

BECKER: We're getting close to the end of our time.

PFEFFERMANN: Okay.

BECKER: I want to ask two other questions. Why were you fired?

PFEFFERMANN: Oh, this was one of those reorganizations that—Peter had been muttering things for a couple of years that he wanted to bring in some kind of world-renowned guru as an adviser, he said, on development things, et cetera, and there were always rumors that our department would be abolished every budget cycle. We had no constituency, basically, and then—so we shrank over the years. It was always very precarious.

And so one day he brings in Michael Klein, who was at the World Bank and who's a very, very good economist and nothing—no problem. But he then was vice president for various things, including economics, and that was the end of the Economics Department.

BECKER: I see.

PFEFFERMANN: So that's how it happened.

BECKER: Well, the final question, you—I was going to ask your thoughts about the future of the Bank and of the IFC.

PFEFFERMANN: Mm-hmm.

BECKER: You've already told me what you think about the future of the IFC, or what you're concerned about.

PFEFFERMANN: Yeah, I mean, the Bank—I think I said this in the little article that I published . .

BECKER: Yeah. Yeah.

PFEFFERMANN: . . and I continue to think so. I think that financing is no longer a huge need, I mean, even in African countries. I think a little bit of it is fine, but it doesn't justify 13,000 people.

On the other hand, it's very difficult to give advice without money. People don't listen. They listen best actually when they pay for the advice.

BECKER: Yeah.

PFEFFERMANN: And that's something the Bank has never pulled off because somehow its cost structure is such that it can't compete with the McKinseys of this world and so on and so forth.

But the way I see it is that—and somebody once said this—you can ask a question about almost any issue in development, no matter how arcane, and you will find out that there is one person at the World Bank who really knows a hell of a lot about it. The problem is that it's dispersed. And so how effective it is I don't know.

The Bank used to use its own staff basically to appraise projects. Today, most Bank people just run consultants. The institutional memory is—has gone down sharply, and so you no longer have senior engineers, senior people who really kind of can smell whether a project is good or bad. You have younger people whose job it is basically to manage tasks done largely by consultants.

There's also much less—and this is something which I think is more than marginal—people spend all their time now with laptops in ministries and don't bum around the country and travel in battered old Volkswagen and then spend time drinking with the natives and then—and really get . .

BECKER: Getting to know their country.

PFEFFERMANN: . . kind of getting to know the—yes. Yes.

One of the strengths of the Bank used to be this kind of what I'd called the journalistic appetite. And this, just for reasons of cost, et cetera, has been totally discouraged now. And I think that's an impoverishment, because you end up talking to the same people and then people who think like you, basically.

BECKER: Yeah.

PFEFFERMANN: It becomes a bit like the old joke of the people who had heard every joke that the other one told, so they'd just give them a number, and then they laugh.

BECKER: Yeah.

PFEFFERMANN: The huge strength of the Bank, I think, still is its convening power, so that when the shareholders of the Bank or the management of the Bank decides that a certain problem, be it HIV/AIDS, be it food security, whatever it is, needs top-level attention, they can convene the top people in the world to focus on it, and then either there's follow up or there's no follow up, but that is a unique role. And also, in spite of all the ups and downs, a lot of what the Bank publishes is highly respectable and highly respected.

So I think it's got—I don't think it has the kind of intellectual—not monopoly, but [inaudible]. I think it's shrunk. There are now far more able development economists, for instance, in many, many universities, both north and south, than there used to be, which is a wonderful thing.

So in a way, the Bank has worked itself out of business in a certain sense. But still, when it comes to flagging the big issues and then working them out, I think the Bank is the only global institution.

Now, what to do with the 13,000 people. I think that is the practical problem for the Bank.

BECKER: Okay. Well, thank you very much.

PFEFFERMANN: Well, it's been great. Thank you.

[End Tape 2, Side A]
[End of interview]