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**WORLD BANK HISTORY PROJECT**

**Brookings Institution**

**Transcript of interview with**

**HEINZ VERGIN and WILLIAM HUMPHREY**

**November 5, 1991  
Washington, D.C.**

**Interview by: John Lewis and Richard Webb**

## FOREWORD

The following is a transcript of an oral interview conducted by the authors of the World Bank's fiftieth anniversary history: John P. Lewis, Richard Webb and Devesh Kapur, *The World Bank: Its First Half Century*, Washington, DC: Brookings Institution Press, 1997. It is not a formal oral history, and it is not a systematic overview of the work of the persons interviewed. At times the authors discussed the planned publication itself and the sources that should be consulted; at other times they talked about persons and publications extraneous to the Bank. Some interview tapes and transcripts begin and end abruptly. Nevertheless, the World Bank Group Archives believes that this transcript may be of interest to researchers and makes it available for public use.

*Heinz Vergin and William Humphrey  
November 5, 1991 - Verbatim*

**[Begin Tape 1, Side A]**

**LEWIS:** . . . part of this history project, but I was doing this long before I got involved in this--a fairly serious attempt to reconstruct both the agricultural reform story and the liberalization, devaluation story. And I think I've more or less got it straight. I think it's true that the main thing that happened to derail the liberalization, devaluation was that LBJ [Lyndon B. Johnson] reneged on the money—although it's very hard to pin that down, particularly in the documents. [George D.] Woods, after all, could not commit money. He didn't have it. He was—he was chairing the consortium. But everybody involved, as far as I know, had the view that the first 900 million dollars of program money was just the first of a series--maybe only a series of two, but at least a series. And then what intervened was the second drought in a row, and everything got slowed down in the economy so that they couldn't absorb resources as fast, so that by a year or fifteen months later, it was agreed by I.G. Patel, among others, that instead of having 900, 900, and a billion dollars, which was to, had been the scenario, that you could go 900, 600 and 900 and come up 400 million dollars short over three years and still do the intended job in terms of providing. And that when, September—I have in my own files a record of that—September of, yeah, '67, but by the next consortium meeting in '68, when I.G. was representing India, the money had just eroded, and so there was a feeling that really they had been really short-changed on the transaction. And Patel was furious.

**VERGIN:** Well, this experience, in a very generalized form, has been played back to us by just about every decision-maker with whom we had to deal with in the initial stages of discussions about so-called policy-based lending. They all, from the finance minister and [inaudible], were saying: "What assurances can you give us that we do not involved again on an under-financed program of stabilization?"

**LEWIS:** Sure. Well, they're very good at playing on that kind of record.

**VERGIN:** And it loomed very large as a hidden agenda in the consortium meeting between [inaudible] in September in Paris.

**LEWIS:** This past September?

**VERGIN:** Yeah. This theme, the memory of the '60s, some of the donors, I would say, were aware of it and went out of their way to deal with this concern. Of course, it isn't answered yet because really it depends on the performance of the economy and the performance of the government as much as it is because of the other determinants of aid programs.

**LEWIS:** Oh, sure. I mean, the aid program always has been a really fairly minor factor in the Indian case but sometimes a pivotal one. My own feeling is that that was quite a costly—I have an unorthodox view of the sort of endemic Indian fiscal problem, although it's out of whack with what's going on right now. I think the Indians in general have tended to underfund development. They're too conservative financially, and particularly in terms of public investment. And this experience in '68 infuriated them and also put sort of the fear of god into them that they weren't going to get caught like that over the barrel again. And as a result—and Patel was kind of the personification of this within the government. He was the secretary and very—I think had a

great influence on decisions. So you can--if you look at what happened to public investment in the succeeding three or four years before the oil shock, there was a real pulling back. They build up their reserves to a kind of unreasonable level for so poor a country, and I think they missed about two or three or four years of growth promotion on the infrastructure and public investment side that was very costly to them in a continuing way.

The funny thing was that on the other side, the agriculture sort of chapter of the story, they got the same kind of abrasive treatment from Johnson. And that also infuriated them, but there the decision that by god they weren't going to get caught over the barrel again was an incentive to really push the green revolution internally, and it was probably one of the things that contributed to the success of their agriculture program. It's not an aid tactic that you can repeat very well, but it was a one shot that turned out to be effective. But anyway there is a lot of still interest in that period, as you say.

But tell us about what—I think, whether I'm right or not, I have a lot of opinions about that period and what happened between the Bank and India up until, say, the end of the '60s, but what should we be looking at more recently? Has there been a—one would say, I think superficially, the Bank's been pretty soft on India. You know, you get this sort of notion that it's kind of tended to treat it with kid gloves. When the Bank gets sort of ticked off by the Finance Ministry about these bad things that happened and the other, the bilateral donors have the view that there was a sort of mess left back in the late '60s, everybody has been kind of providing resources and not as much policy advice as probably in most other country cases, serious clients.

**VERGIN:** First, I can only speak with any, you know, authority on the period since I arrived here. I'm now only—I came in here with the general familiarity that one has if you serve in any central staff function with the India program, but nothing more than that. And that was in April '90.

The documents that I think would be of interest to you, if you haven't seen them already, would be--if I were in your shoes I would take a look at the so-called country strategy papers.

**LEWIS:** Okay.

**VERGIN:** There was one in '88, and there was one this June. And they go on--they come out for India about every two to three years, so I think there probably was one around '85, '86. If you take those three you could, I think, construct a rather interesting time series analysis of the Bank's evolving strategy and evolving concerns. The concerns, particularly over the weakening credit [inaudible], can be traced very nicely that way. And I think you can rightly then ask, you know, whether in '88 it wouldn't have been appropriate to have been maybe somewhat more alarmed about the magnitude of the fiscal imbalance and the emerging external imbalances and the debt profile, which was also [inaudible]

Now, obviously one speaks with a certain amount of benefit of hindsight in saying that, but what in '88 was also not picked up--and to the disadvantage of all parties--was the by then already very heavy dependence of the Indian government on short term borrowing, particularly in the form of these so-called non-resident alien deposits. That aspect did not surface, and it should

have surfaced if maybe a hard economic analysis would have been—again, somewhat more alarmed by the imbalances than the [inaudible] That may be one series of documents to look at.

**HUMPHREY:** Related to that, perhaps going a little back, I mean it's interesting to track the change from the very prudent, maybe even over-prudent financial management in India which the [Bernard R.] Bell experience generated on them into over-expansionary one. I mean, there was a period where I think the Bank was almost arguing that the Indians should be more expansionary in their general financial . .

**LEWIS:** When do you think that turn came?

**HUMPHREY:** Well, that's what I am just wondering, because I basically worked on India in the late '60s and early '70s and then went and worked on other things and only returned in 1988, which was just the beginning of it. So I only sort of know by sort of, say, osmosis, but somewhere between the sort of mid-'70s and the mid-80s the fiscal situation became—was sort of turning around. One of the interesting things is when did it really turn round, why did it turn round in India, and when did the Bank catch on to it. Did the Bank go on preaching the sort of recipes of yesterday after today? I think that would be an interesting thing to look at, both from the point of view of over borrowing internally—and I think for both the expansion of internal and external debt. You know that's an issue, an interesting thing to look at. I don't know what the answer is.

**VERGIN:** I think it could be traced--the documents that would allow the reader to trace that would be the presentations of the Bank as chairman of the consortium . .

**LEWIS:** Made at the consortium. Yeah, yeah.

**VERGIN:** . . to the consortium. I think you would be able to pick up that nuance most readily in that document because the longer reports of the Bank are, tend to be—they lend themselves to “on the one hand, on the other.”

**LEWIS:** Right.

**VERGIN:** It's in the chairman's statement, you know, that there is a need to send a single or maybe dual line message, and you'll find the nuances revealed there more clearly.

The other area that is maybe of interest is the dialogue about the implementation of the ongoing portfolio. I think that's another area where, at least in these ARIS [Annual Review of Implementation and Supervision] reports--they were an invention of the reorganization.

**HUMPHREY:** That's what I was trying to remember, when they were . .

**VERGIN:** There was something that—there was an annual report to senior management as a result of this public project reviews before them. I think in that sort of report sequence is another one that should reveal some trends in the Bank's relationship and some changes in the relationship.

**WEBB:** I'm sorry. Which report's that?

**VERGIN:** As part of the management processes in the Bank, the management of the old projects departments, before '87, were expected to carry out each year a so-called review of the status of the portfolio. And each project under implementation had to be assessed as to, against initial plans and its performance and received a rating on a scale of one to four. That was already there before '87. And the worst cases, which received a four rating and were labeled as "problem projects" in capital letters, were singled out for discussion and review all the way up to the top. Before '87 it was an annual drill in which a series of, I guess it was two dozen problem projects were taken up by the Senior Vice President in a meeting of all his vice presidents.

**LEWIS:** Operations, huh?

**VERGIN:** Yes. Since '87, when we shifted to the so-called "country focus" and established country departments, the structure that we now have, it was expected that the country department would carry out annually a review of the portfolio performance. The methodology didn't change. The ratings of the project was the same. The only advantage was now that you have country focus it also allows you to do a thematic analysis of implementation programs. So since '87 these annual reports are probably richer than in—that they try to go across portfolios and identify implementation issues that are country specific and institution specific or systemic.

**LEWIS:** And the acronym you used?

**VERGIN:** Well, it is now running under the heading of ARIS: Annual Review of Implementation and Supervision.

**HUMPHREY:** That's right. And it used to be called, I think, the Problem Projects Review or Project Implementation Review, P-I-R.

There's another—you know, in terms of looking at sort of specific things, one thing I've read recently which I thought was very interesting, which you may have already, is OED [Operations Evaluation Department] did a case study of the advice that the Bank had been giving on industrial policy to five selected countries, of which India . .

**VERGIN:** That's the next . .

**HUMPHREY:** But before moving on to the performance of individual projects, if one is interested in sort of taking a case study of what the Bank has been saying to a particular set of projects and institutions which we've been dealing with for many years, what impact we've had, which I suppose would make a great one, I was very struck when I came back to work on India in '88 after not working on India for nearly twenty years, the first thing I read was a report on the state of the state electricity boards in India. And I discovered that what I was reading was almost exactly what I had been reading in 1972. I mean, the Bank's advice about the cleaning up and what we should do about it, how we should structure our lending to try and strengthen the finances of these institutions might have been--except all the numbers were bigger--might have

been the same. And so here were a bunch of project institutions in India with which the Bank had been having a relationship for many years, whereas on the financial side very little progress had been made, on the physical execution side, of course, the expansion had trebled. So if one is looking for sort of—there are whole--because we had a very long relationship with India, there are a number of borrowers (the railways is one, the electricity boards are another) where we've been lending to them for, you know, twenty-five years. And it's interesting to see what has happened or not happened to the institutions into which we've been lending.

**VERGIN:** You said earlier that the Bank appears to have been softer on India than maybe on other borrowers. Another way of putting it would be that—I think the Bank has been excessively impressed by the intellectual capacity of the Indian civil service with whom we are interacting and has therefore been reluctant to recognize that the institutional weaknesses are as great as in other countries that are not endowed with as articulate an apex in the civil service. And maybe if one wanted to be unkind one could say that the Bank's management, interacting with these kind of counterparts, has not been willing to give a lot of credibility to project officers who were coming back from the field and were saying, "This project stinks! They do nothing!" Now this is on record. I am prepared to document that because one sees, you know, things that could have been done by just a little bit more application of pressure. But in the Indian case there is more evidence than in most other country programs—and I've had an overview, sitting in staff functions for a while—that we were going an extra mile in according benefit of the doubt.

Now, in some cases—and this corroborates the point—the Indians are now turning around and are saying, "For heaven's sake, why didn't you tell us that this project was going nowhere five years ago?" And, you know, Bombay sewerage, Upper [inaudible project name]—there are a number of these coming out now.

**LEWIS:** And these are senior Indians?

**VERGIN:** Yeah.

**HUMPHREY:** Yes, and it's frequently a different set. I mean, you know you have the--because a lot of our projects are at state level, you're dealing with state governments where--but the lending runs through the center. And it's basically those people, I think, at the center who tend to say, "Look, why on earth didn't you blow the whistle a little more" because they are further removed from the state level rather than just going on and on trying to put Band-Aids on.

**VERGIN:** But that's water under the bridge. I think what . . .

**LEWIS:** That's what we're looking at, water under the bridge on this issue.

**VERGIN:** For us the issue is what can one now do, given this very rich relationship that the Bank has had with India, to come to terms with these perennial institutional problems of construction quality, procurement issues, substandard design capacities in most infrastructure agencies, all of those systemic problems that--you can pick up project reports, you know, a decade back and it reads the same way.

**HUMPHREY:** I think also a very interesting thing is the extra dimension that the federal character of India within a democratic system imposes on it where the dialogue about projects, as I said, at least in many sectors, is with the state authorities whereas the macro dialogue is with the central authorities. And there's a big distance. You have the differences in politics between the two levels and the way in which politics—as you know very well—in India gets into sort of everything one does in every institution one addresses is also a . .

**VERGIN:** This has become probably more pronounced in the last few years.

**LEWIS:** Well, I don't know. I remember in either 1960 or the fall of '59 and being in Bangalore, I introduced the state's small industries office to the center's small industry office. They were there in the same city and they hadn't met each other yet. They were both . . .

It's an endemic kind of problem.

**HUMPHREY:** I think one of the things that has happened to India over time, though, is the politicization of the bureaucracy has taken place. It seems to me now, going back and forth to India, and it's interesting going back there after eighteen years, is the degree to which the members of the administrative service in many cases have become the protégés of state politicians and appointments in the civil service have been politicized. This seems to have come—you know, a lot has changed in the last twenty years there, which has affected the character of the administration itself. And in many cases I think it meant some of the institutions that I'm looking at today seem to be weaker than they were twenty years ago because of this—it's not so much that the professional qualifications of the people in the institutions are worse or their ultimate capabilities but the political sort of pressures under which they operate, they're allowed less freedom to really pursue their professional . .

**LEWIS:** I think both things are at work. One thing is that there are more opportunities in the private sector and so on for the very best people. It used to be, generations back, that the IAS [Indian Administrative Service] was the one place . .

**VERGIN:** Sure, sure.

**LEWIS:** . . where the first-class types went, pretty much. But there also has been a great demoralization of the bureaucracy . .

**VERGIN:** Absolutely.

**LEWIS:** . . because of corruption, which I think has increased enormously in the past generation.

**VERGIN:** Yeah, sure.

**LEWIS:** And they're very cynical, really.



**VERGIN:** These secular developments, I would argue, have not been recognized in the Bank's own thinking about the relationship with the necessary keenness. And frequently the recognition has been lengthened by wanting to think only the best about this. And there has been a mild—I think one could prove that again, [inaudible] development, with a cross-section analysis, less use of the energies of the Bank [inaudible]; i.e., suspension of disbursements in order to get the attention of the agency and to get the time bound program. I think the supervision reports tended to be much lighter than I have seen them written in other country programs. And I think all of it was built around the premise that the Bank had a very special relationship with the leadership in India and could count on that to get the necessary corrective actions initiated and it needed to respect the national pride of this particular leadership. And I think that is still an ingredient in the relationship between India and the Bank. It would be wrong to give the impression that has all disappeared, but . . .

**LEWIS:** Or perhaps to give the impression that it is all wrong, that there is a sense in which—it's a very big country. Almost for that reason alone it's quite a special country. It does have a strangely nearly continuous history of some kind of democratic governance, and it does have this elite, pretty much merit-selected, although by gentlemen's agreement it's an elite selected from an elite's part of the social structure, but nevertheless it's a good merit-selection out of, let's say, 300 million people instead of 800 million still gives you very, very good people at the top. So you can see why even an institution like the World Bank approaches it with a certain kind of deference.

And I know the personal factor—I used to say and even gave talks saying that in the aid business you were almost fundamentally being illegitimate in that you were intruding yourself into another nation state's affair and that if you did that, the only psychological model that you could work with really was a bargaining model. You couldn't be a philanthropist and get away with it psychologically very long. What do you bargain about? In a case like India--in a case like the Philippines you bargain about renting an airfield, but in the Indian case you bargain about what's good for the Indian economy. And that means then that I am telling I.G. Patel I know better than he does about what's good for the Indian economy. And that's a very sort of daunting kind of position to be put in.

**VERGIN:** At that level of abstraction, fine, but where we could have been, in my opinion, more persuasive and on safer ground would have been in the context of implementing agreed projects.

**LEWIS:** Yeah, okay.

**VERGIN:** We should not have been willing, you know, given our special relationship with India, to accept these protracted implementation schedules which are substantially behind the Bank-wide average, when the image of India in all other respects would have led management to expect that India should be below the Bank-wide average.

**LEWIS:** Implementation worse than average.

**VERGIN:** The disbursement problems, the procurement problems, the recurrent systemic problems could have been used much more effectively in the dialogue with this cadre, with this elite, saying, “Come on.”

**LEWIS:** I agree. Okay.

**VERGIN:** “What’s going on at the level where the action ought to be?”

**HUMPHREY:** Because the nature of the elite tended to remove them from that kind of problems. I mean, I don’t suppose I.G. Patel went to the site of a collapsing canal very frequently.

**LEWIS:** That’s absolutely right. And you talk to people who do that and they tell you all kinds of funny stories about how they changed procedures, liberalization, and the same exact rules are going on down at the . . .

**VERGIN:** And I think one aspect of that is that—and it impressed me when I got to India—when you work with the Indian officials, there is such a premium on articulation and on the capacity to communicate that it almost overwhelms the reality below the message.

**LEWIS:** That’s right.

**VERGIN:** And I think in a way the Bank probably was taken in by this to a certain extent.

**LEWIS:** Oh, I think so. I think so. They interact with some pretty good articulators, though.

**VERGIN:** I would say it is well worth for you to take a look at these implementation reviews and see what kind of a trend you see, you can detect in there. Or, alternatively, as Bill suggested, one or two of the institutions that have had very intensive treatment from us, very continuous financing, and, you know, from your point of view, just as OED is now doing, ask the question, “What really was the impact of their relationship with the Bank? Could it have been more?” N-T-P-C is probably one case in point; the National Thermal Power Corporation, which was established from scratch with Bank financing, is now the second largest utility in the world.

**LEWIS:** N-N-P-C?

**VERGIN:** N-T-P-C. National Thermal Power Corporation. That’s one. The [inaudible] is another. It would be interesting: National Dairy Board.

**LEWIS:** Yeah, I know.

**VERGIN:** The Anand is another one where we’ve . . .

**HUMPHREY:** Where we’ve kind of leapt on Dr. [Verghese] Kurien’s back.

**VERGIN:** And not to forget: what about the relationship, that was major, between the Bank and the development finance companies.

**LEWIS:** Yes, yes. So back to Kurien—you say you were on his . .

**HUMPHREY:** Well, I was saying that I always felt in the dairy business that Dr. Kurien had this, started this thing, and he asked the Bank to come and help him . .

**LEWIS:** Oh, he asked a lot of people.

**HUMPHREY:** . . and we rode in on his idea. I mean, it would be hard—I mean, it would be interesting thing to ask oneself . .

**VERGIN:** What did we do with it.

**HUMPHREY:** . . what did we do with it and how much difference did we make, which is the question one could also ask about all the money we poured into the Indian railroads—I mean, if the railroads didn't do anything differently as a result of absorbing all this Bank money. Or you have all the ones that Heinz's suggested—NTPC, the railroads, the dairy board, and even the development banks—are all relatively successful Indian institutions, but then you have like the ones I mentioned, like our efforts to put the state electricity boards on a sounder financial footing has been a—hasn't worked, and we are saying the same things twenty years later that we were twenty years ago. Now, why did that not work, I mean, was it--is an interesting . .

**VERGIN:** When did we start suspending? When did we give up? DESU [Delhi Electricity Supply Undertaking], I guess, was the first one.

**HUMPHREY:** I think it's curious that after twenty years the first time we suspended a loan on financial grounds was SEB [state electricity board]

**VERGIN:** And cancelled, was the loan to the greater Delhi SEB.

**LEWIS:** Did you do anything with the Rural Electrification Corporation?

**HUMPHREY:** Yeah, that was a total disaster. We had hoped that the Rural Electrification Corporation and our involvement there would help us through it to improve the financing of these things. Now, it was successful in the sense (as most of our power lending was concerned) the power systems got built. That wasn't the issue. But the whole financial side of the power business and also, indeed, to some extent its operating didn't get improved nearly to the same extent. So our two loans to the REC really resulted in little more than the financing of the extension of the rural power network with very little institutional reform.

**VERGIN:** If I had to generalize, one other aspect comes to mind, in general I think the Bank was more reluctant in India than in other country programs to attach sector conditions to regular [inaudible] investment operations. Although I think the general deference that you summarized so nicely, that they must know much better what they need than we, but what this caused us then

to do was to go with very, very general covenants, the rate of return covenant being the prime example in the power loans. It was a fallback position, because we had a sense of uneasiness with the financial management of the resource mobilization in that sector and with the tariff structure. That in the Indian context took much longer than a direct dialogue and attempt to attach a sector conditionality would have been.

**HUMPHREY:** And they didn't meet the condition anyway, so I mean we attached rate of return conditions to our power loans in India which were not met, and then we didn't do anything about it.

**LEWIS:** Well, you know that--I don't want to—but the fact that they were somewhat meeting them was the motivation for starting the REC.

**HUMPHREY:** Oh, yeah.

**LEWIS:** That they were meeting to the extent that they were freezing out agriculturalists . .

**HUMPHREY:** That's right.

**LEWIS:** . . because they were trying to meet Bank and [inaudible] conditions. So we got the idea of starting a distribution that would try to charge a cost covering prices.

**HUMPHREY:** I guess it didn't do that, but it did get the electricity out to the farmers.

**LEWIS:** It got some electricity. And I think that there was already a waffling about the rate structure from the beginning, but there was then sort of—[inaudible] was trying to get it up some.

**HUMPHREY:** Politically the agriculture . .

**VERGIN:** The pendulum now has swung to the extreme. The subsidy to the agricultural users is so pronounced and politically so difficult to remove now that it's dragging down the entire . .

**HUMPHREY:** And the point was [all talking at once] they abolished agricultural tariffs for agriculture altogether. The agriculturalists in Andhra Pradesh now get their power for nothing.

**LEWIS:** Just like cancelling debt, huh?

**HUMPHREY:** That's right, except they don't [all speaking at once] Mind you, tariffs were so low before it probably cost more to collect them than they cost in money.

**VERGIN:** I would say that if there were to be a line of reading to pursue, the strategy papers, the chairman's statements at the consortia, and maybe a few selected samplings of these annual portfolio reviews would probably put you . .

**HUMPHREY:** And some of the OED reports I think are quite good, don't you?

**VERGIN:** Yeah, I think those—although only would be of interest if you have looked at the portfolio reviews.

**LEWIS:** Anything to say particularly about agriculture, the Bank's work in agriculture?

**VERGIN:** Well, this may be another thing. We have tried in India, maybe as the first country, India and East Asia, to get the restructuring of the extension service going. [Daniel] Benor was probably in India and in Indonesia, these were the first Bank borrowers . .

**LEWIS:** Yeah, he was there a long time.

**VERGIN:** . . to have the benefit of his missionary zeal as regards to the T and V [training and visit] method. I think what has come of that is an interesting story. We are now working on the—not reversal, but what's called "broad basing," trying to get the highly specialized services that have resulted from the religious application of this Benor method back into a mode where they can support the cropping better. That's another theme in agriculture.

**HUMPHREY:** And it's interesting. I think that on the whole has been more successful, the extension projects. Our irrigation projects, you know, I think have suffered much more from a whole series of ills, not least of which was the whole construction quality but also the waste of water in the allocation systems. A number of interesting reports about that.

**VERGIN:** There OED seems to be on a very interesting trail.

**HUMPHREY:** OED did a report which looked at a number of Indian irrigation projects and described why they haven't—which we financed—described why they haven't worked and what the problems were.

**VERGIN:** I don't think there is any contest in our staff about [inaudible] completely this is correct assessment of the Bank's record.

**LEWIS:** Agricultural credit?

**VERGIN:** We have withdrawn, in great sorrow. There's nothing--I can't work with these institutions. They have done to these institutions, particularly last year, the wholesale debt forgiveness, that's just immoral, I would say.

**HUMPHREY:** That became very—but that's an interesting story in itself because you probably knew way back in the early '70s when we first got involved with the ARDC [Agricultural Refinance and Development Corporation], an early offshoot of the central bank and it was regarded rather highly. And then the more it got generalized and the more it became, I guess, politicized in many ways, you know, kind of they sort of got worse and worse until finally we had to pull out.

**VERGIN:** We even financed a massive review by expert panels of what's wrong with the agricultural credit system that came up with the set of recommendations which the government in principle has accepted but has been unable, I think for political reasons, to . .

**LEWIS:** Yeah, I think that's right.

**VERGIN:** It was the [A.M.] Khusro committee. This is one of the sadder stories. It has, I think, less to do with the Bank's effectiveness or ineffectiveness, but . .

**LEWIS:** With Indian politics.

**VERGIN:** It's Indian politics and the single story of depleting the institutional structure to the point where it's now almost becoming the major bottleneck in agricultural development, I would say.

**HUMPHREY:** And I think it is probably—that's one where we probably did go on too long lending into a basically bankrupt system in the hope that by doing so we could somehow rescue it. And I think in hindsight we should have solved that sooner.

**VERGIN:** I think with hindsight you could say that about the [inaudible] institutions as well, the IDBI [Industrial Development Bank of India] and ICICI [Industrial Credit and Investment Corporation of India]. That's not confined to India. That's true when it comes to the Bank's lending policy to development finance companies in general, I would argue.

**LEWIS:** The IDBI—what's the one I used to . .

**HUMPHREY:** ICICI.

**LEWIS:** ICICI. You also stopped funding that?

**VERGIN:** Well, they at least have on their own thought through where they have gone, and they have started making necessary changes to reverse, but they are stuck in a policy framework governing their lending program, the rates that they can charge. Until recently they were stuck in this. The parameters that really were in their managerial power were not enough to turn this ship around.

**LEWIS:** I see. MM-hmm, mm-hmm. That again was essentially politics, you think?

**VERGIN:** Well, it links up with the way in which the government is financing—it was financing, it is still financing—its deficit through the banking system and the way in which the government through command performances was relying on the banking system to finance the parastatals and their investment program. The concept of liquidity requirements, priority lending and so on, all of it adds its potent--undermine the autonomy and the functioning of the eventual strengths of these term lending institutions and their commercial banks.

I think one has to acknowledge that it is easier to talk about these things now because the government itself has become quite so credible in all of these areas. I think the period of denial ended about twelve months ago. I still got a taste of the denial when I arrived on the scene. You must have, too. The openness with which one can now discuss the problems of planned trade regime, the issues of the financial sector, the problems in the power sector has changed drastically even within the short period that I have been in this job. And it's very hard for the Bank to deal with a self-confident, very articulate, very proud borrower who is engaged in massive denial.

**LEWIS:** Right. No, that I think has changed a lot. It's been very recent, as you say. I think it is a good thing for Manmohan [Singh], I think, that he went off this South-South thing for two years. It gave him a chance to sort of change his spots and come back quite different. But I think he's been great, charging ahead. I don't know how long they can get away with this. They've backed off on some things already.

**VERGIN:** I mean, the policy vis-à-vis the sick elements of the public sector enterprises, that's going to be the next testing ground, as you may be aware, very clearly now its area in which the strength of their commitment to adjustment will be proven.

**LEWIS:** In the sick industry area.

**VERGIN:** Yes. The diagnostic work has been done. They've identified some fifty central [inaudible] state enterprises that currently employ a large number at the state level. They've focused on those enterprises that are owned by central ministries and have identified some fifty plus as chronically sick. The next step is what to do about them. They've accepted a hard budget constraint when it comes to transfers from the central government budget to state enterprises in the form of subsidies. The diagnostic work has been done; the hard budget constraint has been accepted in dialogue with us and with the [International Monetary] Fund. The next link is to establish an action program and an exit policy. In the absence of that, it means arrears or they offload all of these sick industry companies on the banks.

**LEWIS:** Let me try out a hypothesis on you.

**[End Tape 1, Side A]**

**[Begin Tape 1, Side B]**

**LEWIS:** . . . bureaucracy in the case of, probably, a developing country. Is that right? It seems—maybe it's because I know the Indians better, and you have—I'm not saying the Indians have a disproportionate influence within the house. I'd say the Pakistanis have done better, maybe. But you have this sort of traffic back and forth. Shankar Acharya is back here now. You have to sort of keep track of which one is where. And the hypothesis would be that as long as they were defensive and in a sense in an adversarial role as far as policy was concerned, this was a handicap from the Bank's point of view because they knew what you were going to say before you said it, and this really made it more awkward than if you were just going into Nepal or something. Now, however, when they're on a more liberalizing reform course, the fact that

you've got people like Montek Ahluwalia, Rakesh Mohan and so on there in place have been, acquired some ideas while they were in this institution, probably is a positive. Isn't that right?

**HUMPHREY:** I think you're right in your first hypothesis. I mean, I remember always being surprised--and I shouldn't have been surprised--at the fact that somebody had been in Washington made him even better at defending whatever he is going to be defending. I think you're right on the first point, too.

**VERGIN:** Well, one can only hope that this positive aspect can be leveraged.

**LEWIS:** Yes, I think it's a . . .

**VERGIN:** The risk is that because they have a unique experience and because they have been--they feel that they can get support out of the Bank, that they would have less of a sense of urgency than another reformer without this job history to build their own team and to leverage themselves inside their own establishment. That could be a risk.

**LEWIS:** It could be.

**VERGIN:** I don't want to mention names, but you--if an Indonesian decision-maker had to do, build his team because he never worked in the Bank, his first recourse was to the Harvard group [Harvard Institute for International Development], but that had by then already receded. He had to then work properly within the team of finance, BAPPENAS, and the central bank. There could be a temptation in the Indian context--with these rather functionally structured--not to build that team but to reach back into the Bank, you know, and get the program fixed up and formulated and monitored in the Fund: that's a risk, rather than properly anchored there in a team that has been given some depth.

**LEWIS:** Yeah, I think you make, you got a fairly persuasive case there. It goes with what we've heard. We've been doing some interviewing today because of this forthcoming trip, and we've talked to the Indonesian people just before lunch and have really quite a different view--neither of us knew much about Indonesia--of this sort of consensual group-think that seems on the whole to work very well.

I would give you a different sort of—I think India, although they can be quite, a lot of solidarity about them when they are confronting the World Bank and what not, there is a hell of a lot of contention within the system all the time. And in that sense it's a little bit more like a familiar Western-style government where there's a lot of battling and pluralism within the system. And there I think that for Ahluwalia or young Rakesh Mohan or whatnot it may be an asset to have a very good line of retreat. They can be braver in fighting their battles within the system.

This is the same case I make about going back and forth from academia to the U.S. government. I'm sort of a timid fellow. I could be much braver if I had a prepared line of retreat to Princeton or Indiana or whatnot than if I were just stuck in, you know, in the U.S. government. So I think there's something to be said about that, the back and forth that I think has some possible advantages, but . . .



**VERGIN:** Also some disadvantage in that it could delay the efforts in developing a capacity for policy formulation, implementation and monitoring that then is truly indigenous and is strong and anchored.

**LEWIS:** That's right. That's right.

**VERGIN:** It also works in a peculiar way--developing this observation of yours further--in the rotation policy inside the government between center and states. That also has both a positive and a negative side.

**LEWIS:** Of course there's a story, in fact, we haven't mentioned, but that is the salary, enormous salary differential, and that puts a lot of noise into the, in this kind of system.

**VERGIN:** It almost adds a very strong incentive to keep the door open for other reasons.

**LEWIS:** Sure. That's right. That's right.

**VERGIN:** You'll be in India? What's the objective now?

**LEWIS:** Well, of course, we're making the trip because we're in this history project. And we're going to—we're not staying in India as long as we otherwise would if I hadn't logged so much time there in the past. We're going to be there together about three days, and then I'm going to come back after we go to Bangladesh and Indonesia, and I'll be there for a long weekend, further seeing people. So we're just--I suppose our description of what we're up to is try to get perceptions from leading countries dealing with the Bank of their perceptions of the institution, how it works and so on. It's almost embarrassingly thin, the amount of time you can spend to do this on the ground is so short, and yet I think you do gain something by being on the ground. It's pretty chancy: it's a question of who you talk with, who's there, who has a bit of time, but . . .

When I was in Delhi, living there for years and years, I used to be awfully annoyed with people who would flit in and out of town, but I just went through a little external review for one of the CGIAR [Consultative Group for International Agricultural Research] centers, ISNAR [International Service for National Agricultural Research] in The Hague, and there we visited eight countries, a group of eight us, split up. And we all went to Kenya; amongst ourselves we touched down in eight different countries over the space of a couple weeks and in particular visits only for two or three days. I'm sure what we did was superficial, but nevertheless that was very, very illuminating to our final product, I think.

So we hope that we'll pick up some clues, ideas, whatnot.

**VERGIN:** Is Finance arranging your program, or are you doing it . . .

**LEWIS:** Oh, no, you see we're headquartered at Brookings, and we've been in touch with the Bank's representatives, and we've been in touch with Oktay [Yenal].

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**VERGIN:** That's what I was thinking, because he, among all of us, you know, he has the longest institutional memory on India.

**HUMPHREY:** He and Jochen Kraske together [inaudible] spoke to a great many of the Indians. Bilsel Alisbah spent a lot of years working on India, too.

**VERGIN:** Oktay is back on this now, with a vengeance, out in the field, so . . .

**LEWIS:** You have more of a presence in India in the field, resident, than most countries. Does that make a difference?

**VERGIN:** We have about fifteen people there which, relative to headquarters staff, their leverage was in a ratio of almost two to one by now, higher level Indian staff, generally quite senior people, near retirement, past retirement.

Yes, I think it does make a difference in project implementation. It probably has made it a little bit more permissive in project appraisal and preparation because you have more of a presence there to deal with corrective action.

**LEWIS:** Yeah, yeah, I understand. Yeah, it gives you more of a style, I suppose, of . . .

**VERGIN:** The role of this mission has also, I think, over time has gone through swings from being a country economic office to an implementation unit, back to facilitating actors with sector specialists, which I think [inaudible] right now.

**LEWIS:** Sector specialists now? I suppose in a [inaudible] way it was more of an economic office.

**HUMPHREY:** That was true when I was there in the early '70s we were basically a resident economic mission. I mean, we ran errands on projects [inaudible] but that was basically what we were . . .

**LEWIS:** Jim [James Q.] Harrison was there at that time, wasn't he?

**HUMPHREY:** No, he was there a little later.

**LEWIS:** A little later.

**VERGIN:** Let us know if we can be of any help.

**LEWIS:** Thank you very much. You've been a lot of help already.

**VERGIN:** We can only build the bridge from history [inaudible] to what's happening now.

**WEBB:** Help us [inaudible] the muddy water now.

*Heinz Vergin and William Humphrey  
November 5, 1991 - Verbatim*

**VERGIN:** You probably, before you go out, would benefit by just taking a look at what this structural adjustment loan is all about, also to give you a briefing about the areas in which we now have locked in a very intensive dialogue through the conditionality of the Bank. You'll be leaving when?

**LEWIS:** Well, that's the trouble. Monday.

**WEBB:** I'm leaving Monday.

**LEWIS:** I am, too.

**WEBB:** Yeah, we're both leaving.

**VERGIN:** The President's memorandum, which will be the key document for the Board, is at the stage where we'll be seeing the draft tomorrow, before the weekend. That probably would be the most helpful document. We'll give you the letter of development policy as a second best.

**LEWIS:** Well, you're going to be here during part of the workday on Monday?

**WEBB:** I'll be here Monday morning.

**VERGIN:** Okay. Let us make sure that you carry, if not the president's memorandum in advance draft, that is the [inaudible] development policy, if you would treat that in confidence . .

**LEWIS:** Oh, of course, of course.

**VERGIN:** . . as a briefing document, because it is a nice milestone in the relationship in that it is the first development policy whether it be--that the Bank has ever obtained for India and the first [inaudible] and for the government it will be the first policy-based lending operation in India. It's almost a matter of ideology not to . .

**LEWIS:** Yes, I know.

**VERGIN:** . . for better or worse. We don't know where this one will take us.

Let me make sure that you have that briefing material.

**LEWIS:** That would be great. Perfect. Well, thank you so much.

**[End Tape 1, Side B]**

**[End of interview]**