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Transcript of interview with

RAKESH MOHAN

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By: Richard Webb and Devesh Kapur

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 person 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.

Rakesh Mohan
November 14, 1991 - Verbatim

*[Begin Tape 1, Side A]*¹

WEBB: . . . I don't know why anyone bothers with this. It's really so incredibly liberal now, especially now.

MOHAN: No, and especially after they include China, the cutting down of IDA [*International Development Association*], our IDA, I think is criminal. And so much of it is partly our own fault in presenting ourselves as a well-organized sort of newly industrializing country when in fact we are one of the poorest countries in the world, and basically outside Africa we are really very poor, excluding sort of Laos and Bhutan or Nepal, we're South Asia poor. We are relatively poorer now than we were thirty years ago--relatively. That is to say the distance between India and Southeast Asia is much greater today than for the Southeast Asians, and the per capita income of Korea was about the same in 1960 as here.

WEBB: As here now? Incredible!

MOHAN: No, it isn't. The per capita income of Korea in 1960 was almost the same as India in 1960.

WEBB: In constant dollars? Oh, in India in 1960. I see.

MOHAN: Since we have not changed very much. It's the same thing as saying just as poor as India is today.

WEBB: You see, these figures, two and a fifth percent per capita growth per decade?

MOHAN: No, that's the thing. That is, we have been growing basically around 1 to 1.9 percent a year.

WEBB: Per capita?

MOHAN: Per capita from, say, 1950 to 1980, and in 1980 that's gone up to something like 2.5 to 3.0 percent.

[Pause for coffee service]

WEBB: You have this mass of foreigners coming, I mean, because of the size of India, where even the average there . . .

MOHAN: You came in this morning?

¹Original transcript by Brookings Institution World Bank history project; original insertions are in []. Insertions added by World Bank Group Archives are in *italics* in [].

WEBB: We came in last night--yesterday morning.

MOHAN: Yesterday morning? And from your last trip, I mean just as you drive around the most affluent part of India, purely as a kind of a touristic impression, you don't get the impression this is one of the poorest countries in the world?

WEBB: No,

MOHAN: No.

WEBB: No. No way.

KAPUR: Well, probably because the route from the airport to the [*inaudible*] Hotel is through [*inaudible*]

MOHAN: No, no, but since you were here earlier, I'm curious.

WEBB: If we're just talking airport to hotel, then Peru looks poorer now.

MOHAN: That I would not doubt, that I would not doubt, of course. No, because, you know, one of my interesting experiences I had when Megalutia [*phonetic*] was here many years ago, when I was here in '82-'83 or thereabouts, and I took him around for a day in Delhi. At that time I was essentially working on urban development, I took him to many of the squatter settlements and so on here. And I also took him to what in some sense is the richest area of Delhi and said, "Look here. This is the--now, what do you feel?" And in some sense he was more surprised at the richest part, on the difference between, say, the richest neighborhood here as opposed to, say, the richest neighborhood in Colombia or somewhere like that.

WEBB: The richest here is much less rich in appearance.

MOHAN: Yeah.

WEBB: I remember that from the last time I was here. That's true.

KAPUR: Do you that's still true?

MOHAN: Oh, yes.

WEBB: I mean, there's not a . . .

KAPUR: At least each time I come back--I mean, now I've been out for eight years—I mean I, at least in Delhi which I come to each time, the amount of wealth in Delhi and Bombay is just . . .

MOHAN: No, no, please don't misunderstand me. I'm not saying there is no wealth, but I'm saying that the way that the ten richest families would look in Colombia . .

KAPUR: Oh, I see. I see.

MOHAN: . . which is, in terms of the ten richest you're talking about a country of 30 million people, and in the country 800 million people, and the way the ten richest families would live here is different. Now, getting--you're right that that is taking off now to some extent because some of the social constraints seem to have--on spending, or showing to be spending--have fallen, some of which was just social constraints, not lack of money.

WEBB: Yeah, sure.

KAPUR: Is it your sense that the top one or two percent of the income is sort of garnered by debt has actually increased? That would be my sense.

MOHAN: Yes, I would think so; I would think so. But what I'm sort of saying is that today no family here has a private aircraft . .

WEBB: Uh-huh.

MOHAN: . . because of a certain pair of urban land laws. You see, no one in this country can have a technical plot. Of course they can go out in the country and get it. Even that's not very easy. But it's [both speaking at once]

WEBB: But it's always, I guess--you must be very limited here by, all these years of Gandhi-ism, socialism, high taxes also . . .

[Interruption]

WEBB: I mean, the thing is Devesh has never been to Caracas, Bogota, or even Lima.

KAPUR: I guess my impression—or the Philippines.

WEBB: Brazil, Argentina. Philippines, huh?

KAPUR: Well, I guess my focus and also my experience is primarily of Calcutta. And we're going there and spending one night there in Calcutta, so I hope that I can show Richard and John for a few hours, just driving through [*inaudible*] And then the contrast between Calcutta and Delhi over the years, it's very impressive.

MOHAN: Yeah, sure.

WEBB: How do you see the Indian relationship with the Bank now compared to what [both speaking at once]

MOHAN: You know, at the moment it is going through a major metamorphosis, and we are in the process of being reduced to a normal, so-called normal relationship. But over the last--I'm familiar with it, say, last ten years, in all the fields since I came back here in 1980. And basically I think it's actually been a—actually what I think ought to be the kind of relationship the Bank should have with developing countries, which is that there was a lot of financing of infrastructure, power, I think originally irrigation also, less irrigation sometimes, rural water supply, a number of projects, a number of road projects earlier . .

KAPUR: Railways.

MOHAN: Railways. That [*inaudible*] urban transport, urban infrastructure, and some housing. In each of these cases in some sense from our side the way the whole thing was organized was that because we had reasonably well-crafted five year plans, well-crafted in terms of public expenditure--I may not think they're well-crafted in terms of the plan as a whole or what a plan should be, but just in terms of organized public expenditure programming, public investment programming, that to the extent that we had five year public investment programs, and within the government or within the country you had estimates of the funding sources for the public investment programs, and at the beginning of a five year plan you would say that, "Well, this is the savings of the economy, et cetera, this is the total investment that we expect over the next five years in relation to these savings, this is going to be the deficit in terms of the investment savings gap and the foreign savings gap." So you had some sense of the external inflow needed for the five year period. Then for the public investment itself you had estimates of what government savings would be. There is the balance of current revenues.

Second, you would then have estimates of what the borrowing of the government, domestic borrowing, could be over the five year period, and in some sense again the balance of domestic finances with foreign borrowing.

So in some sense, based on that, you went out looking for foreign borrowing. Within that, say, the dialogue with the Bank, the India consortium, et cetera, you would then know how much you were getting from the Bank overall. And knowing you wouldn't get, let us say, two billion dollars a year, which is then plugged into this whole public investment programming exercise, in some sense it's irrelevant which project is funded and which is not.

Now, obviously things didn't exactly happen as I am describing them, but that is the framework in which this used to be done. So you also had a shelf of projects because of the public investment programming exercise, and in some sense the Bank could pick any one of them up, but at the same time, obviously, the Bank's normal operations--it is not that you sort of came up with a list of ten projects, now you choose five. That obviously is not the way that it worked. The Bank's staff are constantly wandering around, and, you know, there are certain things that have of greater interest than others, and they are concentrating on that. And it's not that there is only one way that we are saying that those

key projects take prior, this is the plan. It was a kind of on-going relationship so that projects with which you have been talking about with the Bank would enter the plan. In that sense it was a very dynamic, consultative.

WEBB: There was some influence?

MOHAN: Oh, yes. Absolutely.

WEBB: Yeah. In the actual mix of projects?

MOHAN: Yes. And also, talking purely from, say, the Planning Commission experience in terms of allocation priorities, you would always try to make sure that something that was funded by the Bank is fully funded because the planning exercise, these five-year exercises, they were notional exercises. The actual budgeting exercise is an annual exercise where--this, of course, it still goes on--where it is an annual sense that you allocate investment expenditures from the budget.

KAPUR: Is that--to what extent is that true, I mean, your sense that in the planning exercise the Bank-funded projects were fully funded?

MOHAN: Well, to the extent possible. Obviously—there are still problems in terms of finding the matching resources, et cetera, more in recent years, but you give priority to that because you know that, to the extent that Bank disbursements are filling your foreign exchange requirements that you want to make sure that the disbursements don't slow down because of counterpart fund money shortages. Of course, there have been counterpart fund shortages. The problem is implementation.

KAPUR: Right.

MOHAN: But it was always the case that within the Planning Commission there were specific directives that you must give priority to funding Bank and other foreign-funded projects.

WEBB: It does work in practice, you think?

MOHAN: Yes.

WEBB: I ask because in the Bank what one hears a lot is—I guess it's normal, but--is an awful lot of mumbling about implementation problems.

MOHAN: No, there are implementation problems. The point is that you can do . .

WEBB: Just as a matter of degree.

MOHAN: See, you could allocate the funding, but if you, say, in an urban development project, if you can't acquire the land . .

WEBB: So it's more physical implementation rather than [both speaking at once] counterpart.

MOHAN: Yes, yes. But the problem is that when you are allocating the funds, you do need to have some sense that, look, it will be used because if it is not going to be used, then you are depriving someone else. [both speaking at once]

WEBB: Do the World Bank projects have a harder time in implementation . .

MOHAN: No.

WEBB: . . because of the extra procedural, let's say, requirements in general?

MOHAN: In general because they will be better funded.

WEBB: Because there's a huge pipeline. I was looking; it's twelve billion today.

MOHAN: Well, this is a recent years' problem. I don't know what the previous--I mean, I don't know what the series would look like if you looked at the . .

WEBB: It must have grown.

MOHAN: . . pipeline but I know that in recent years it is a real problem because--for two or three reasons. One is the banking and fiscal situation domestically.

WEBB: Yeah.

KAPUR: From lack of counterpart funds.

MOHAN: From lack of counterpart funds clearly. This is a problem the last two years. Second is the depreciation, since '86 particularly, and that adds to the counterpart fund problem.

WEBB: I read that, yeah.

MOHAN: And that's a very clear problem in the sense that if I [both speaking at once] started the project in '86 at 14 rupees to the dollar with matching funds and that kind of thing, now I'm 26 rupees to the dollar.

WEBB: It's funny, I read a memo to the Board [*of Executive Directors*], I guess, that talks about this . .

KAPUR: This problem. In April.

WEBB: Yeah, the arrears, and it quoted--cause number one was the depreciation. And it said—sort of put all the blame on India--it said that the problem is that the Indian government has not been able to amplify the projects fast enough, as if, you know, you could just do this ad hoc, you know. You just, okay, after all the studies and you spend millions trying to do something that costs one billion, and then just from one to the other you're asked to make it 1.5 billion.

MOHAN: Well, what I think they've been trying to do is to increase the percentage contribution of the Bank. I don't know how. I'm not familiar with that.

WEBB: I would venture a guess. I don't know, let's see where this is—if this is the way it works. In this situation where there is a balance of payments crunch in this pipeline, there must be terrific pressure on the Bank director, [Heinz] Vergin and the staff, to move projects by increasing borrowing . .

MOHAN: Yes, of course.

WEBB: . . by ignoring covenants, compliance, kind of just [both speaking at once]. Do you sense that? No?

MOHAN: Well, no. I think that--the former, yes, but I'm not sure of the covenants because I think that since the Bank policy position has hardened over the years, overall . .

WEBB: So there is a conflict now.

MOHAN: . . and there has always been this lurking feeling in the Bank that the Bank has been too soft on India from the policy viewpoint and therefore to some extent I find the Bank staff sort of going the other way. That they, within the bureaucracy they want to be seen [drowned out by coughing] India in terms of covenants and so on.

WEBB: So there's a real conflict for them . .

MOHAN: Yes.

WEBB: . . because they--which of the imperatives is stronger [both speaking at once]. It will be interesting to see how it works out.

MOHAN: The other kind of sort of question of relations dynamics that I would mention in terms of India with other countries is that until recently the Indian bureaucracy kept very strong controls on the nature of relationships between World Bank staff and the bureaucracy in the sense that they established reasonably strict equivalencies of rank, for example, that you wouldn't see a division chief tripping off to see the minister every time, as an example. He would be lucky to get an appointment with an undersecretary, you know, of the ministry. There were clear kind of equivalencies, and the Department of Economic Affairs which coordinates World Bank activity would sort of say, "These are the kind of people who you can see."

And what happens, for example, is that if there's a request from the Bank office to see the Undersecretary of Industry, he asks me, "Should I see this gentleman?" If I have a doubt, I ask the Ministry of Finance, you know, "Should he see the secretary or should he see someone else?" This kind of thing has been traditionally very highly controlled, whereas in other countries, say, when I worked in the Philippines as a senior economist, my counterparts were the finance minister and industry minister, and certainly in Colombia also the senior economist would be dealing directly with the finance minister, the governor of the central bank, Banca de Republica, et cetera. And of course that's the case in African countries--most countries in Africa. And to some extent I think that that was a healthy relationship. Now, in some cases there might be too much of rigidity, but overall I think it makes for a healthier relationship in that the minister sort of talks to the vice president when he visits, the secretary talks with to the director when he visits, so that the kind of level of discussion is at a similar level.

WEBB: More respectful.

MOHAN: Similar responsibility, in that the minister then is not bothered about the details. If the vice president for South Asia talks to him, it is at some policy level.

WEBB: Is there not another side, that this may have led to a somewhat laxer stance by the Bank with respect to compliance . .

MOHAN: No, no.

WEBB: No? That's what people in the Bank are saying now.

MOHAN: I see.

WEBB: We talked to a senior official there who said actually he saw a senior Indian official who complained to him, "You should have told us about these problems," that sort of implementation problems in the field that apparently hadn't been getting through to the people at the top.

MOHAN: The senior administrator is always going to have problems with someone saying they didn't know [*inaudible*] would have liked.

WEBB: Yes. So it's a good line now.

KAPUR: Two questions. One was the question of slow disbursement against commitments. Is there much more of a problem?

MOHAN: Yes.

KAPUR: I remember from Ernie [*Ernest*] Stern's chron files when he was SVP [*senior vice president*] for operations [*inaudible*] in '83- '84 I see a steady stream of letters to

his—I guess [*David*] Hopper was then the VP for South Asia—saying, you know, “This is incredible. The amount of money just has been piling up for the past years . . .”

MOHAN: I think the interesting point there, you see, is that, again earlier, having been much more conversant with the urban development area, that the reviews that the World Bank did of all the urban development projects, that Mike [*Michael A.*] Cohen did I think six, seven, eight years ago, that were published, I think, as *Learning by Doing*.

WEBB: Yes.

MOHAN: I've seen other reviews of other sectors, but one of the things that came out in that was the consistent underestimate of implementation time by the Bank staff in all countries . .

KAPUR: Right.

MOHAN: . . that if a normal project is four years in terms of original estimates, it always took six to seven years.

WEBB: Yeah.

MOHAN: And certainly from my experience here in the urban development projects, it was exactly that, that in every project there were two to three year time overruns. There was a similar kind of implementation problems, usually in that area connected with land acquisition and things of that kind. Yet every time that a new project was done, there was no learning either from, say, the Indian side or from the Bank side.

And I think because the incentives on both sides are not to do that because from the Bank's side there is pressure that if you say about 200 million dollar project, then you want that to be approved this year, to be in this year's commitments. If you sort of say, “Look, this is going to take seven years and not four years in fact,” then there might be an argument, “Look, why don't you make it 100 million dollars, make this a three-year project, and then do a second phase three or four years from now.”

KAPUR: [*inaudible*] in tranches.

MOHAN: Yeah. But then you don't fill up your commitment kitty this year. Similarly, from the Indian side you're happier going through the exercise with the Bank once rather than twice, obviously, doing the same thing for the same amount of money four years from now.

KAPUR: The transaction costs are lower.

MOHAN: Yes.

WEBB: But aren't there a lot of costs in terms of grief, in terms of recrimination, complaints? Or actually that just does not happen, no one bothers?

MOHAN: No, people bother, but it's continued, and it's in the pipeline.

WEBB: But now it's suddenly popped up.

MOHAN: Yes, now it's popped up because we've got into a fiscal and balance of payments problem.

WEBB: And this--it looks as though the Bank is saying, "Aha! We've got you now."

MOHAN: Yes. I mean, it's--the reason I was mentioning the other thing about the bureaucratic sort of dynamics is one sees the little bit of, "Look, you didn't let me enter your room a year ago. Now you come to me, and I won't talk to anyone less than the finance minister." Now, I'm exaggerating that, that's really not that way, but there is something of that, that the way the relationship was with India, the Bank staff were sort of as much trying to meet you rather than your meeting them because you needed the money.

KAPUR: There is an observation which might bear upon this—at least I sort of heard, and that thing one can never really confirm this--is that the internal hiring within the Bank goes on since, particularly since the last part of the '80s, finding it more difficult to attract quote "good" unquote people in India because people felt that you could, you know, be much more important and do much more in other countries.

MOHAN: Well, the other thing in the particular matter of the '80s is that because all the internal incentives in the Bank, World Bank policy loans, which we could not do, and all the kudos within the Bank were for policy loans, whereas in India until now you couldn't do policy-based loans.

WEBB: What you're talking about is relatively well-run plans and so on. The way it worked out, even though the Bank was lending for projects mostly, it sounds as though the way it worked out in practice, however, is it was basically program lending.

MOHAN: Yes, yes.

WEBB: Even if at institutional level--with the electricity projects or whatever--there is a dialogue that is having some effect.

MOHAN: But it also had effects on the political limitation in the area of international competitive bidding for these particular projects which you wouldn't have otherwise. *[inaudible]*--the disbursement was keyed to the implementation. So, I mean, it was and it wasn't.

WEBB: Have you visited many Bank projects in India, or talked to some of the implementation [both speaking at once]

MOHAN: I've known the urban development projects very well but not so much the others except very briefly.

WEBB: Do you have any sense of how much, let's say, wisdom or expertise the Bank transfers?

MOHAN: I was just going to say that, actually, that I think that the--in each of the areas that the Bank worked in, and partly because it was not a hierarchical relationship and much more a relationship of equals between the locals and the Bank staff, that there were very good relationships at the staff level, that one talks to bureaucrats who have been involved in different Bank projects and they always--from the working level, that is, if you are doing, say, a coal project, that people in, say, the coal ministry who work with the Bank staff, the people, say, at the coal company level who work with the Bank staff, always talk very warmly about the Bank staff and how professional they are and how much they gain and so on.

WEBB: That's really interesting.

MOHAN: Same thing in the urban—certainly in the urban development area. The relationship, say, between the Madras and the port development authority or the electrical authority, Bombay, et cetera, also from the governmental sort of urban departments, housing, the urban development ministry here--in all the relations there's a lot of interaction and learning from the Bank staff, and in all these things I have clearly observed people respecting the Bank staff's professionalism.

WEBB: Does the presence of a big res rep [*resident representative*] office here help in that sense or is that not a big part of it?

MOHAN: No, that's not a big part of it.

WEBB: It's the project people who come in that mostly . . .

MOHAN: Well, because the areas that I have known better, the local Bank staff doesn't have much of a project activity. I think they have agricultural [*inaudible*] activity with the local Bank staff, but I have no contact with them at all and, of course, I'm [*inaudible*] on the economic side.

KAPUR: Is your sense of the expertise that the expertise has remained, grown on the Bank's side, or perhaps declined?

MOHAN: That I don't know partly because I have moved from the--went from the project side, the Planning Commission side, to the more policy-making side, so I in some sense have moved from the project division to the country economic division.

WEBB: Can you suggest someone who might be able to talk with us?

MOHAN: One person you should see is J. L. Bajaj, who was the controlling guy in the finance ministry for six years until last year. He's now on the bank commission, so he has time on his hands to see you also.

KAPUR: Is he the secretary general?

MOHAN: No, no, he's advisor, industry, but he was the chap who was the UN secretary and then additional secretary Fund/Bank who fully controlled the Bank/Fund for six years from the government side. He was the linchpin.

WEBB: Oh, I see. The kind of centralized . . .

MOHAN: Yes.

WEBB: But he'd have a sense of how things worked with projects?

MOHAN: Yes. And another guy you should see is Shyam [*phonetic*] Bajpai. He is now the joint secretary in the ministry of chemicals and petrochemicals. He, say, seven, eight years ago was, I think, the deputy secretary or something like that in the department of economic affairs who had control--or who he used to be in charge of our development area but [*inaudible*] department in charge of all three areas. But now he's in the petrochemicals ministry, so he would be familiar with the Bank funding of--I guess it's the NTPC [*National Thermal Power Corporation*] or . . .

KAPUR: IPCL [*Indian Petrochemicals Corporation Ltd.*].

MOHAN: IPCL, yeah. He's a good guy, and I think he would be able to give you good help.

WEBB: Great.

MOHAN: If you get to Calcutta you should talk to Siambi [*phonetic*].

KAPUR: Well, actually the secretary of Siambi [*phonetic*] is a friend of mine, Dr. Bakshi [*phonetic*]. He, actually, is not at all happy with that.

MOHAN: Kalim Bakshi [*phonetic*]?

In Calcutta talk to Kalim Biswas [*phonetic*] also. I'm not sure where he is right now.

KAPUR: Bakshi has been there for five years. He's number two, and now he's an undersecretary for the last two years. He has complained that every couple of years there were new guys.

MOHAN: Yes, I think in recent years there has been a lot of turnover in the organization of that sector.

Another thing I would say is that the Bank sector work and economic work has been extremely useful. It is something that both sides played out that has, given the sort of political and the world situation here, in the government you wouldn't be caught dead saying this is being done because the World Bank report has said so. It is the other way around. But because of the professional work done in sector work and economic work and the lack of it here, that those things were used a lot, and they sort of had an osmotic effect, you know, seeps through, as opposed to the standard Bank operation, which is you do a sector report or economic report, then the mission comes to discuss it with you. And the tendency is that, "Look, there is a set of recommendations. Now, what about it?" And government, the normal government response is to be noncommittal, obviously, with some maybe easy to do recommendations, some really large policy issues, et cetera, but these reports have a big function of putting together a lot of information in one place which otherwise did not exist.

KAPUR: So the CEMs [*country economic memorandum*], the annual . .

MOHAN: CEM is less important, I think.

KAPUR: In terms of [*inaudible*]

MOHAN: CEM is less important in terms of influence as opposed to the more detailed sector reports.

KAPUR: How do you sort of--take, for example, take the financial sector reports in comparison . .

MOHAN: Well, you see, now the situation is different in that now, in my personal view, the relationship is now appreciated because we are now in the [*inaudible*] business so it is difficult to talk about the current situation now, but I'm now talking—see, Attila [*Karaosmanoglu*] was responsible--because now our choices are limited, whereas earlier, I mean, for example, say, in the industry sector now there has been a series of reports in the last five years.

WEBB: Have you seen [both speaking at once]

MOHAN: There was the [*Claudio R.*] Frischtak industrial regulatory report. There was an export development report by [*Donald*] Keesing. There were capital goods sector reports. There were a number of sector reports within industry, I mean, in electronics--quite a few of them.

KAPUR: Right.

MOHAN: And then more recently a trade reform, trade policy report.

KAPUR: Have you seen [*inaudible*]

MOHAN: Yeah.

WEBB: The what?

KAPUR: This is a review of Bank lending to industry.

WEBB: Is it good?

KAPUR: It's fairly good.

MOHAN: But these reports in the last five, six years have been absolutely first class, and I think have been influential in people's thinking.

WEBB: Are they actually officially circulated or released?

MOHAN: Yes, oh, yes. No, I mean they're not--some of them are even being published actually because until recently government hadn't been allowing any publication. But the last couple of years government has also been giving permission for red-cover publications, a few of them.

WEBB: Even if they were grey in effect.

MOHAN: Even if they were grey, yeah. Probably they would be, get more readership of grey than of red.

KAPUR: Some are green.

MOHAN: Some even green, I think, but they still get read.

KAPUR: The sector one, I think, is still green.

MOHAN: Yeah.

WEBB: I've forgotten now. It's grey, green, red? Or is it . . .

MOHAN: Green, grey, red. Yellow, green, grey, red. And in various sectors this has been going on for ages, and one of the problems I think has been that work within the Bank you always put off for these things because it's not tangible. And similarly from here you--at the operational level obviously you are more interested in getting money than reading reports and so, I mean, neither side admits it, but the—this, I think this was the most useful part of the relationship.

WEBB: It's created a kind of dialogue in a certain way, hasn't it?

MOHAN: Oh, absolutely, absolutely. And the other thing again I would say is that the Bank research publications--which again, having been long part of that activity and debate within the Bank--is--the value of it is underplayed within the Bank, that the large volume of information generated by World Bank research and publications is a major source of information, influence, thinking, within the larger academic community as well, because, again, because there's not much else around.

WEBB: These reports--not the research reports, but the others--they really get diffused to the press or . .

MOHAN: No, no, the other ones don't.

WEBB: So you're talking about . . .

MOHAN: Now I've switched to the research.

WEBB: Yeah, I know, but going back for a minute. You were talking about 50 to 100 people in the government of India who would . . .

MOHAN: Yes, or even less, even less, but I mean let us say the export development report, the key people in the trade side, the economic ministry, industry ministry, would get it and read it.

KAPUR: Do you get these—I mean, what's the extent of, say, when do you, for example, see these reports? Do they ask you at a yellow cover stage or green?

MOHAN: Green cover.

KAPUR: Green cover. So it really comes to you only the green cover. How much is, say, any of these, because it concerned industry, would they, say, ask or even slip you a copy of the green cover?

MOHAN: I don't know. Probably not. I don't know if they can, actually. *[inaudible]*

KAPUR: They can't, officially.

[UNKOWN MAN]: [inaudible]

KAPUR: With all the departments, sectors, which you don't ask *[inaudible]* affected the most, ostensibly, that is?

MOHAN: Well, they've had increasing relationships with the industry association recently.

KAPUR: CER [*phonetic*].

MOHAN: CER particularly. But I think that until it's released you can't do it. It is a confidential report to the government.

[End Tape 1, Side A]

[Begin Tape 1, Side B]

MOHAN: . . . come around a few times.

WEBB: So do they go directly to [*inaudible*] banks, local banks?

MOHAN: Yes, they have much closer associations with the private sector than with the government. And of course the banks.

WEBB: They don't—they're not tryin at all to coordinate their contracts? They just go ahead with it?

MOHAN: Go ahead and do it.

WEBB: Yeah. Would you guess that the '70s were rather similar to the '60s in terms of what we've been talking about?

MOHAN: I would guess so, but I don't know because I have no personal . . .

WEBB: Yeah, yeah. Certainly the . .

MOHAN: There was a problem of . .

WEBB: . . . basic relationship with a lot of respect and the hierarchical control, that must be [both speaking at once]

MOHAN: Well, '80s also--it's only nowadays because once you're in the SAL [*structural adjustment loan*] business then you [*inaudible*] relationship.

WEBB: Yeah. I haven't heard much, I haven't heard directly, but what I'm told is that the '60s experience here was a trial that continues. People remember.

MOHAN: Yes, yes. The '60s here were a real trial, and in fact over the last year or so as one could see the current situation developing, I have been trying to impress on all who I can impress it on that, "Look, this is the same kind of situation as in 1967, so I would urge everyone to be extremely cautious, not cautious in the sense that certain things ought to be done, ought to be done, but more cautious in the nature of the relationship," because I think we suffered because of that experience, suffered in the sense that the shutters against foreign influence, so to speak, became much more pronounced because of the

experience of arm-twisting. But John [Lewis] would know all about that because he was here in U.S. AID [Agency for International Development] at that time.

KAPUR: It would be interesting when you meet him if you say what you see as the parallels of what you saw about it now and then, and if indeed that is the case.

MOHAN: Well, the difference, though, is that in terms of the political change, we want to do policy change also at this time.

WEBB: Much more unanimity.

MOHAN: Much more unanimity at this point than there was at that time.

WEBB: I mean, there were some people then also that . .

MOHAN: Oh, yes, absolutely. Absolutely.

WEBB: But now it's general.

MOHAN: Yes. More general. It wouldn't say it's general, but it's more general.

WEBB: It's a virus [inaudible] everyone is.

MOHAN: I just missed Mussair [phonetic]. I remember [Hernando] De Soto. He was here a couple of weeks ago on some kind of a private visit, actually, so he wasn't in the meeting, too, but there was one meeting in the early '90s that I couldn't--I was out of town at that time, and so they came to see him.

WEBB: Oh, yeah. He moves all over. He lives on airplanes.

MOHAN: His book was very interesting to me because, you know, people like him, you, myself, who worked in the sort of urban informal sector or the urban informal housing, et cetera, at one point, there are lots of things that we learned in the early '70s which have now become sort of a big deal, which we may not have expressed it in the same way.

WEBB: Yeah, well, he stressed it in a very political way, and it just caught the . .

MOHAN: No, but I think that a lot of my . .

WEBB: It suddenly becomes a political symbol.

MOHAN: But also, I mean, a lot of my impressions and views, et cetera, on economic policy have been obviously highly influenced by that experience in terms of starting from a viewpoint where one was greatly interested in the poverty issue, income distribution, and all the rest of it, and observing that most government interventions did indeed do the

opposite, and also observing the kind of things that the people did for themselves, and also in different kind of policy environments as, let's say, Lima or in Colombia and here, and essentially come to the conclusion that a lot of government intervention ostensibly in the name of the poor was actually helping particularly the urban middle class or urban upper middle class, for that matter . .

WEBB: Was that . .

MOHAN: . . and the great amount of entrepreneurial energies that exist have been throttled by all this. And he, of course, has put this in a very different, much more catchy political framework.

WEBB: Yeah.

KAPUR: Also, that has just come at a certain time when . .

MOHAN: Of course. But, I mean, it is the case that before Lee Sokiti [*phonetic*] and-- what was the other man's name?

WEBB: The one who worked in Africa?

MOHAN: No, the one who worked in Latin America. John Turner.

WEBB: Oh, John Turner, yeah, of course, yeah.

MOHAN: They were basically saying the same things, although in much narrower . .

WEBB: John Turner was working in the '60s, I recall. He helped to open my eyes at that time.

MOHAN: Yes. No, and this is that learning. I am in a narrow area of housing, so to speak, housing and urban land development.

WEBB: Exactly. I remember—you remember that Mark went to Peru once when I was in the Bank, Mark Leiserson, division chief, and he had never been to Latin America. We drove around one day through parts of Lima, and I was amazed at his basic impression. He said he just couldn't believe the amount of construction. He'd never seen anything like that! There was hardly a house in any neighborhood that didn't have a pile of bricks sitting out in front because they were adding something or raising the roof or a second story or something.

And I just could not understand. I'd never seen any—so I said, “But why aren't--I mean, a place like that Jakarta where people were immigrating just as much as Lima, surely people are all building?”

He said, "No, it's different." He said, "In Jakarta everything's much more like shacks, temporary, and you don't, just don't see this."

What's India like?

MOHAN: Both.

WEBB: Both, huh.

MOHAN: I mean I think that's an economic growth variable because in the '60s Latin America was booming, even into the middle '70s. Peru slowed down maybe a little earlier.

WEBB: Yeah.

MOHAN: Whereas at that time in Indonesia nothing was happening. I'm sure Indonesia would be different now.

WEBB: Yeah. It might be; I wonder if it's switched there. Peru didn't slow down; Peru in '74 started going backwards, and it's been going backwards ever since.

MOHAN: Look, I saw that with you in '77 or '78--'78, I think it was, when you were there for six months or so.

WEBB: And did you have the same impression, that you were more [both speaking at once]

MOHAN: No, it was more that by '77-'78 already Peru was much worse off than Bogota, Colombia, whereas, say by, in the '60s Peru was much better off than Colombia. I remember coming down from Bogota to Lima and seeing that it was a poor place. Of course the climate which makes a difference, but . . .

WEBB: And I remember exactly the opposite impression when I visited Colombia in about '64, '65.

MOHAN: Yes, I mean, just looking at its statistics, in the '60s Peru was in damned good shape. But even in '78--one image I always remember of Lima is you showed me a place where there were like fifty trucks full of building materials . .

WEBB: Yeah, that's right--full of bricks, rocks.

MOHAN: . . full of brick and all kinds of things. People were showing pulling up, and either the truck taking off or someone getting a . . .

WEBB: That's right.

MOHAN: That image really has always stuck in my mind in terms of informal sector activity connected with housing. For example, here there's been a lot of talk of building sector making available some kind of loans from public sector backed institutions to building materials availability, et cetera. I think of that time.

And I always said, "Look, you know, why does the government have to take action to give access to any building materials? You have to explain to people why this is not happening."

"Oh, maybe it is happening, and you didn't know about it."

Come in.

[Pause while someone arrives]

This is Richard Webb.

WEBB: How do you do?

UNKNOWN MAN: Hello. I'm *[inaudible]*

MOHAN: He's from the World Economic Forum Indonesia.

Richard was central bank governor in Peru at one point, earlier with the World Bank, and now he is writing a history of the World Bank. It's not—make *[inaudible]* comfortable for you. I have told *[inaudible]* that he could come in and . .

UNKNOWN MAN: I don't want to in any way interrupt your . . .

MOHAN: No, this will take, I think, a few minutes to finish *[inaudible]*

KAPUR: One point which Richard agrees, which *[inaudible]*, we see that the recent sort of changes in the relationship, most of this happened maybe because of GOC *[Government of China]* presence. But when that happened, you take the relative sums which the Bank is giving now, it's really still overall as a fraction of GDP *[gross domestic product]* and so on and so forth it's a very small sum.

MOHAN: It's nothing.

KAPUR: But that seems to buy an enormous amount of leverage.

MOHAN: Well, it's because the "Seal of Good Housekeeping Approval" from the World Bank increases access to world capital markets in a very disproportionate manner.

WEBB: You mean private?

MOHAN: Yes, private.

WEBB: Because the whole consortium doesn't add up to that much . . .

MOHAN: No, private, private. In the kind of situation that we got into earlier this year where, you know, no foreign bank would buy your grandmother, you know, you have—where your normal trading activities get affected, where loans are not being turned over.

The other thing, of course, is that the--we were doing reforms in any case, then the only issue is of speed and some details.

WEBB: But is it also that some people in the government kind of see that Bank position and influence as a help internally?

MOHAN: Well, that would vary, I mean, depending on people's perceptions. I mean, some people would feel that one gets handicapped by the things that you would like to do in any case if people see these things are being done because the IMF [*International Monetary Fund*] and World Bank wants it. I'm certainly one who believes that. I feel that that's a handicap, but there are others who feel that, "Look, it wouldn't be done at the political level unless . . ."

WEBB: Unless you're kind of forced.

MOHAN: Unless you're kind of forced. I don't believe so at this point. I would have believed it earlier.

WEBB: The big fear is the backlash?

MOHAN: Yes. But I think that the whole thing has changed because of international changes and that it has in fact been interesting and surprising that one might have expected much more noise against the recent economic changes than there has been.

KAPUR: But also because [*inaudible*] on the labor issue, labor reforms, that you might really have to do that.

MOHAN: You see, the labor issue I think is wrongly emphasized on these issues by the World Bank and by others. I think that is clearly a problem.

KAPUR: [*inaudible*] rules for exit.

MOHAN: Yes, but I mean if you actually look at exits to [*inaudible*] labor, these are the problems.

WEBB: Exits? You mean firing?

MOHAN: No, not firing, but exit of firms, closing of firms.

WEBB: Oh, I see.

MOHAN: But if one looks at the case studies of firms that have indeed been referred to this, you know, the IFR [*international financial reporting*], a good--I think a majority of those have not resulted from labor problems.

KAPUR: The problem has come [*inaudible*] as well.

MOHAN: And labor problems arise because the labor is not even being paid their legal dues. And don't forget golden handshakes. Then you can hardly blame labor for being intransigent, and you have to remember that some of the more difficult amendments to labor laws came in 1978 and 1982. They were not there earlier. I don't personally remember the circumstances in which these things came, but my guess would be that because labor was not even getting—you know, it's like working for the World Bank, paying your seven percent of salary every month, and then when you leave you don't even get that back. [*Laughter*] Surely you would organize a union and say, "I'm not leaving, and you can't chuck me out."

KAPUR: Up to now the management has never been held responsible for [*inaudible*]

MOHAN: And also because the financial sector, the way it has operated, that whereas a group, a business group, could be making a hundred and four losses in one company, the [*inaudible*] would still lend to them a thousand crores for setting up another company, which would not happen elsewhere. Their credit rating would be finished.

WEBB: Are these private banks?

MOHAN: They are private banks, but they've got public--it is, they're called public sector financial institutions. If you don't have the kind of--this is why I'm saying that the problems there are more serious than I believe--the people are sort of exclusively focusing on labor retrenchment. And yes, obviously there's a problem—I'm not saying it's not a problem--but I think that people are not trying to understand why the problem exists. And if one looks at the cost structures, labor costs being low, labor costs are very small. It doesn't matter. If you [*inaudible*], you know, every issue has four companies. In the public sector, yes, it's a problem, but in the private sector, I mean, I think that the difficulties are something else. And if you solve those difficulties, this won't be a problem.

WEBB: It's really nice of you to invite for dinner. This has been marvelous. Why don't we continue . . .

[End Side B, Tape 1]

[End of interview]