

**WORLD BANK HISTORY PROJECT**

**Brookings Institution**

**Transcript of interview with**

**S. STANLEY KATZ**

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**By: Richard Webb, 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.

*S. Stanley Katz*  
*June 28, 1991 – Verbatim*

*[Begin Tape 1, Side A]*<sup>1</sup>

**KATZ:** . . . I guess six or eight fairly senior recruitments from the Asian Development Bank. These are people who are quite knowledgeable. And it might be a good idea--and I'm sure they'd be delighted to do it--if each one of them sets down maybe a couple of paragraphs on his own experiences, because many of these guys were more operational than I was. I was at the SVP [*Senior Vice President*] level, which was a different kind of relationship with the World Bank, but these people were at the project level, in government studies and so on. So they might have a different vantage point, and I will be glad when I go back to ask three or four of them maybe to just jot down a couple of paragraphs of their observations on how the two banks have interfaced.

**WEBB:** Okay. Perhaps you could suggest some names so that we could approach them directly.

**KATZ:** If you want to do it that way that would be fine. There's a fellow named Klaus Hoffarth, H-O-F-F-A-R-T-H. He was with the ADB for, I think, probably eighteen or twenty years. He's German national. Then there's another fellow named Rolf, R-O-L-F, Westling, W-E-S-T-L-I-N-G, one word. He's a Finn, and he was with the ADB in Manila for, I guess, twelve or fifteen years. Another fellow is named Bill Winning, W-I-N-N-I-N-G. He's Australian. He also was with the Bank probably a dozen years or so. These people would I think have a rather good feel for the working level relationships at the Bank. If you want to approach them, I think . . .

**WEBB:** We'll try to get in touch with them through you.

**KATZ:** All right. All right. Why don't I alert them that they'll hear from you at some point and start thinking about this and maybe putting some thoughts together.

**WEBB:** Fine.

**KATZ:** My overall impression is it's--the relationship changed over time substantially. When I joined the ADB it was eleven years old, and that was in 1978. It was relatively small and rather self-sufficient in terms of its approach. It didn't do a great deal of business. The volume was small and the number of projects was small, and the overlap with the World Bank was very minimal. The areas of potential overlap were really quite modest. At that time there was an exchange of information between the secretaries' offices of the two banks, and I think the staff did get, you know, the benefit of economic memoranda from the World Bank and so on. But at that point the Asian Development Bank was very much a project-by-project bank, so it didn't worry too much about the economic overview or the macro aspects, and it didn't really worry too much about even sectors. It was really very much focused on this power project or this agricultural project. So the main interface was probably to ensure that the World Bank wasn't looking at the same project, but there was really not very much effort to look at the policy implications of the project and therefore at

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

the World Bank's role in developing a policy side, sector. It was very much project by project.

Now that changed over the years. I was there from '78 to '90, and over those twelve years the bank, the ADB itself expanded, so it became more important for it to know what the World Bank was involved in. It also became more involved in sort of a sector overall approach, not just project by project, so that it became more important to coordinate policy framework and to ensure that what the ADB did, did not cut across what the World Bank was doing either in terms of specific projects or sectors. So there was much more of an effort, endeavor to find out what the World Bank was doing and thinking. And there were cases, for example in Indonesia, where the World Bank recommended to the Asian Development Bank that it hold off on a loan for a particular sector while the policy framework was—I think it was in the transportation area--while the policy framework was being adjusted by the Indonesians under World Bank pressure, I guess. And the idea was that if the Asian Development Bank came in with a loan, it would relieve the need of the Indonesians to put in these reforms. So there was a fair amount of dialogue back and forth, and this grew and evolved over the years.

Initially, as I say, there wasn't really much of a need for an interface, and it was mostly document exchanges. As the institution evolved its portfolio just about doubled its annual level of lending with the five billion [*inaudible*] maybe a billion and it had much more of a concern with sectors and policies in the sectors. It simply moved away from a project-by-project approach. Although projects were still its bread and butter, it tried to put them in a broader sector framework. So it became more important for them to work with the World Bank.

There was always a bit of a competitiveness, but not a strident competitiveness, a feeling that in some cases the World Bank was being too tough in terms of its policy demands. In other cases the World Bank was perhaps taking a hard line but then caving in and the Asian Development Bank was sort of left out there, having said no because of these policy changes, then the ground shifts, and we're still saying no, and the World Bank is going ahead, you know. So there was somewhat of a lack of complete confidence that we were always working together, but I think it improved over time.

There was always, I think, a recognition also that the World Bank had just tremendous depth in terms of its economics, in terms of its understanding of sectors, in terms of macro policy framework, and the Asian Development Bank never really tooled up to do that.

You see, the ADB came along sort of after the salad days of the international development programs. The World Bank started when everybody was very enthusiastic about development. They thought they could change the world, and they gave the World Bank a rather free hand. So the World Bank used it well in terms of putting on board a lot of good economists and bringing in a lot of analysts. They had tremendous depth, and it has tremendous depth today, a huge fund of real top talent in this organization, but by the time the Asian Development Bank came along it was identified more as a modest regional bank, didn't need this kind of world economic analysis. And most of its people, at least in the early stages, were essentially

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technicians, engineers, a few country specialists, but it didn't have nor did it ever build up this real economic analytical base. So it was always the feeling that the World Bank would just sort of run circles around the small regional bank. When any issue came up, they had a greater understanding. They'd been involved in the sectors and so on. And a little envy, I suppose, on the part of the regional bank, the Asian Development Bank.

In terms of specific projects, there was, I think--again it evolved, but there was pretty good coordination. The World Bank missions would often stop in Manila on their way through to these countries where we were both operating. Our technical people, the country officers, would talk to them and find out what they were doing in this sector or what was their thinking about such and such a project, how did it fit with ours. And there was a fair amount of communication at the project level, although occasionally there was the feeling, you know, that the Asian Development Bank was developing a project and the World Bank would come in and sort of take it over. I don't think that was a real legitimate complaint, and I don't think it happened all that often, but, you know, we were both basically doing the same kinds of things in these countries and looking at the same sectors, looking to develop a project portfolio and so on, and so there was some sort of natural areas where there would be potential overlap.

In some cases it was worked out nicely. For example, in the Philippines, in Manila, there was a water and sewage project, and I think the way it worked the World Bank did the primary water-carrying channels, and the Asian Development Bank did the interconnections in the secondary and tertiary channels. So it was a sort of synergistic. And I think in many projects there was a complementarity where the two agencies worked closely together and ensured that what they did made one larger project rather than trying to compete with each other for the same kind project. I think there was a pretty good amount of cooperation and coordination.

It was a little more difficult at the sort of policy level because the Asian Development Bank was really new in the policy area, and for a long time there wasn't very much discussion. But in the last, I guess, maybe eight years or so there were structured meetings at the vice president level. The regional vice presidents for the World Bank would meet with the operational vice presidents for the Asian Development Bank. Often at the ADB meetings, the annual meetings there would be someone from the region, often the VP from the region here, would come to the ADB's annual meetings. And at that time there would be an attempt to have a formal, more or less formal meeting, in terms of, "What are you planning in country? What are you planning in this country or the next country?" And you would go through the inventory of countries where we had common programs and try to get some feel from each other in terms of what we felt were priorities, what projects were in our pipeline, what the overall macro picture was, any emerging sector problems, things like that. So there was--it then got to be reasonably good coordination at sort of the overview level, the vice presidents' level, and this provided a very good framework for the coordination at the project level. Project level work had been, coordination had been going forward fairly well even before this.

Is this the kind of information that you're interested in?

**WEBB:** Yeah, yeah. It's fascinating.

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**KAPUR:** I was wondering how was it or how is it decided sort of on the comparative advantage of the two institutions?

**KATZ:** Well, listen, that's a good question. You really have to question what is it that the regional bank, like the Asian Development Bank, does that's different or new or incremental. And there were a lot of people who felt the regional banks were, they –how shall I say it?—they didn't bring a great deal to the party that the World Bank wasn't doing or couldn't have done itself. And I think there's some validity to that judgment. Certainly, you know, the World Bank is lending 20 billion in Asia, and this bank is lending 5 billion. It's not a lot, but there were differences. And there were things that the Asian Development Bank could do as a local bank that the World Bank would have trouble with.

For example, members of both organizations include these small South Pacific islands, Vanuatu and Kiribati and Gilbert and Cook and so on, and it was just not economic for the World Bank to send its kind of big missions out there to do economic reviews when local economies may be fishing and agriculture. And it was much easier for the World Bank to say, “Look, you take the lead in these and we'll co-finance with you if there's something that we could finance or we'll use your documentation or--you sort of take the lead.” So that in fact the Asian Development Bank did have a regional office in Vanuatu, which provided essentially the focal point for a lot of the South Pacific work and still does. And the World Bank didn't put a lot of its resources, analytical resources, in that and just essentially used what the ADB came up with and co-financed with us. But most of the projects were small. But that's a small example.

I suppose one of the benefits was that this was another institution; that is, the ADB was another way of tapping the capital markets for a special region. The World Bank when it goes to the capital markets is borrowing globally, and occasionally if the markets become saturated with World Bank paper you still had another vehicle, which was the Asian Development Bank, which could go to the capital markets and issue its bonds and borrow and channel funds to the region. So it was another, effectively another channel of resource transfer. That's on the supply side, effectively, which is important. There was, you know--some investors felt, well, the World Bank is big and they wanted to have a sort of a closer relationship with the issue of *[inaudible]* with the Asian Development Bank or they wanted their portfolio to be a little more specialized in the region so there was some advantage to having another window into the European and Japanese capital markets. Now, I don't think that's a major factor, because there was never a time when the World Bank couldn't borrow.

There was a feeling, also, among the Asians that they had, obviously, more control over the Asian Development Bank. This is a very large institution, with Africa and Latin America and European--a lot of interests, whereas the Asians felt, well, this is really their institution. And it was important to them psychologically to feel like they were able to control an important part of the development process in Asia more directly.

**WEBB:** Do you borrow on the same terms?

**KATZ:** It really—it varies from time to time, depends on what the market is doing at that time and what market we're into. For example, there were times when we, ADB, could tap the Japanese yen market at a rate that was even better than the World Bank because it was a local bank and the Japanese liked it and so on. And other times the Swiss franc market would be more expensive to the ADB, but it's not really—it's not the rate at that moment because all of these banks borrow in different places and there are swap arrangements, so it's really a composite of *[inaudible]*

That was--this is another thing. There was some source of confusion, frankly, with the borrowers because sometimes ministries themselves, where we would be making a loan, let's say for the irrigation sector, and the World Bank was making a loan, and the World Bank would have a different set of procedures. Procurement procedures were different. Sometimes the contracting arrangements were different. We tried to make them as similar as possible but it wasn't always feasible because the institutions had different histories and different processes evolved, so there was some confusion in terms of the loan administration itself, and then there could also be confusion in terms of the policy requirements. The World Bank would say, "We think your rate should be raised by 20 percent over two years *[inaudible]*," and the Asian Development Bank's analysis would be, "Well, we don't think it's really that severe and we should give them a little more time."

There was one celebrated case, for example--which is still going on, I think--in Bangladesh. It was a very major railway bridge to be built over--I've forgotten where.

**KAPUR:** Jamuna.

**KATZ:** Jamuna, right. And there were--it links the north and south of the country, as I recall, in different rails. One is metre gauge and one is another gauge.

**KAPUR:** Broad gauge.

**KATZ:** Yeah. The question—the World Bank felt that it needed a bridge, but you really didn't need a highway over it. You just needed a railway bridge. The idea was to provide space for a highway bridge, but--to put space for a highway on the same bridge but to let it go for awhile. And the Asian Development Bank engineers concluded that if you just put the highway--no, I'm sorry. I've got it backwards. They only wanted a highway, and the Asian Development Bank was saying, "Well, if you put a highway in, you're going to destroy your railway network in this country, and they'll never be able to survive in the future." So we concluded that there was a need to put both the highway and the railway bridge at the same time. And there are some major differences, and the Bangladeshis, you know, didn't know which way to go. They were getting different advice. They obviously wanted the railway as well, but it was a huge capital investment, and they were really afraid that the railway system would just atrophy if they didn't have a way of connecting up the two sides. So there were very often these kinds of differing advice. Not--this was a really major case.

Most of the time it was more at the margin, and very often we would try to sort it out between the two banks and then provide a common approach to the country. But then the countries often felt that the banks were ganging up on them, that, you know, they were being sort of squeezed by these big lending institutions, though there were some

areas where it was a little more difficult for the borrowers. And of course if they were procuring for the same project under the World Bank they had different kinds of processes and different kinds of documentation than for the Asian Development Bank under the very same activity.

**KAPUR:** But the other case around, which is that the country itself plays off the two institutions.

**KATZ:** Yeah, they sometimes try to do this, that's correct.

**WEBB:** On the funding, something that's been going on in the World Bank is getting more and more trust funds, funds that are practically bilateral, using Bank channels. Is that going on in the ADB as well?

**KATZ:** Well, it seems to be going the other way. These were--this is for technical assistance kind of activities, I think.

**WEBB:** Not all of it, but a lot of it is, maybe most of it is.

**KATZ:** The Bank--it's interesting because in the early days the Asian Development Bank had some individual funds contributed--I think it was Scandinavians and the U.S. and Japan, and they were single-purpose or they were tied to procurement. And the Bank decided that it was just too complicated to administer a whole bunch of discrete funds for different purposes with different procurement requirements, so it said, "We're going to combine these all in a special fund, and fund technical assistance out of it on a grant basis. And if you want to contribute to the special fund, that's our preference." And little by little they weaned the countries away from this kind of tied TA [*technical assistance*] funding to contributions to a major fund.

Now, more recently it's broken apart again. The Japanese have, when they were--this is five or six years ago--when they were faced with very large surpluses on the current account and the U.S. was pressing them, they were looking for a lot of different ways of relieving the pressure, so they contributed--I think they had a program of like 30 million dollars a year in TA money which they gave to the ADB to administer. It was nominally untied, so in fact the procurement didn't have to go to Japanese firms, but the Japanese had structured it in such a way they wanted to know what the projects were in advance and what the purposes were for approval. They wanted to approve the purpose, which was not tied in a formal sense, but it was tied in an informal sense, because if they approved the project they usually knew there were a couple of Japanese firms involved and so on. So that it became a sort of retrogressive in that sense. I don't know the World Bank situation, whether it's sort of similar these days or not.

**WEBB:** We're not really that familiar with it yet on that point.

**KAPUR:** They have about 800 trust funds now.

**KATZ:** Well, it's an administrative problem, very complex situation to administer trust funds, and you don't always get the best combination of expertise and equipment if it's specifically tied.



I recall in the ADB, for example, there was one--I don't remember who it was--one of the countries from the early days had contributed on a tied basis, and it was--the Bank finally found it just couldn't find any projects that needed the kind of expertise that this fund was available for, so eventually they just said, "We'll fold it into the general fund of the country." I think it was either Austria or one of the Scandinavians. They finally agreed, but it sat on the books of the Bank for years without being drawn down.

**KAPUR:** I think over here it seems as much it's an outcome of budget pressures because in the U.S., reporting on the lines in the budget, staff and so on, this is the way, side door through which you can get more staff and so on which is not reflected in the main budget. So ostensibly you have low budget growth . .

**KATZ:** It's off budget, right.

**KAPUR:** It's off budget.

**WEBB:** Does the ADB have strong representation at the country level compared to the World Bank? I'm thinking now of the--I know the IDB [*Inter-American Development Bank*] very well, and they have much more regional representation.

**KATZ:** Well, you see the whole philosophy with the regional banks differed. The reason--one of the *raison d'etres* of the regional banks, at least the Asian bank, was that by being in the region it was so close to its countries it could be there within four or five hours by plane and therefore could do a lot more from the headquarters than like the World Bank which was, you know, twelve hours away and so on.

Now, for a long time we probably--I'm just guessing, but it had to be at least twelve years or more--the Asian Development Bank had no regional offices, and it then gradually opened up a few. It has now, I think, five, and these were in countries where there was a substantial program and there were implementation problems. These were basically implementation offices, not really representation as such. Most of the processing, almost all of it, of loans from the identification stage on to the disbursement stage was really done at headquarters, but if there were documents that got hung up in a ministry or something like that you had a man on the scene who could call up and say, "We're waiting for you to give us the billing for so and so. There is a lot of purchasing that's outstanding. We're willing to reimburse but we need your vouchers." And so on. So they were essentially representation in terms of implementation expeditiousness--expediting at the location.

Now, they have been, I think in--I'm not even sure I remember. I know there's one in Bangladesh, one in Nepal, Indonesia, Vanuatu for the South Pacific region (that's kind of the regional office), and there's one more. I've forgotten; I don't recall where it is. It's in the annual report of the Bank. But these are really very different from the Inter-American Bank, as I understand it, where they have offices all over, and a lot of the work is allegedly decentralized. A lot of the processing is done locally, at least that's what they say. This is the--in the Asian Bank the philosophy was that it's so close to the region that it doesn't really need to have a lot of people out and around. And the way it grew up, there was a desire to ensure that there was uniformity among

countries, that the same policies and procedures were used equally among all of the borrowers, and that therefore there had to be kind of a more centralized approach. This may be changing now, but frankly I don't think it will ever reach the stage of the decentralization of the Inter-American Bank. I think a lot will still go on in headquarters.

**WEBB:** My sense of the IDB is that it's seen as a sort of cooperative by Latin Americans, that they control and in the sense that they all have a right to a certain amount and not only funding but also appointments, things like that. Is there anything like that at all in the ADB?

**KATZ:** Well, I think honestly that's a very fundamental difference between the banks. The Asian Development Bank tried very hard and continues to try to keep it totally apolitical. The charter itself says when recruiting staff you look for the best quality and then try to maintain a global regional balance. So it doesn't say you have to have so many Japanese and so many Americans.

There has been kind of an informal understanding that no one country would be wildly out of line with its shares in the Bank, but for a long time, for example, the British, who have a lot of civil servants abroad, the British representation in the Asian Development Bank staff is substantially higher than you would expect on the given basis of their shares. The U.S. and Japan's staff members were always about the same, about 60, 65 people. But there was no hard and fast rule that this was a Japanese job and you had to replace this Japanese guy with another Japanese, because very often you went out and looked for the right person and . . .

*[End Tape 1, Side A]*

*[Begin Tape 1, Side B]*

**KATZ:** . . . Korean departments should be Korean, because Korea is important. Or India or Pakistan would say, "Look, we've had this guy in this job now for ten years. He's coming to retirement. We would like to see you recruit another Indian" or another Pakistani or something like that. So it was--there was some modest desire to keep nationality balances, but it was not sort of a hard quota approach, and it was not fought over. I mean, the president of the Bank had a lot of latitude. If he said, "Look, I've had--there's been an American in this position and we can't find an American, or we've found a Korean who's very good, and we're going to hire him," the board would say, "Okay. It's your decision." And, for example, the general counsel's position, which is a very important position in any organization, the first general counsel was an American. The second was an American. Then it went to a New Zealander. Then it went to a Korean, and now it's back to an American again, only this American had come up through the staff. The same is true--like the secretary's office had been--the first guy was a Sri Lankan and then the next one was an Australian. No, sorry, the next one was Indonesian, then an Australian, now there's an Indian in that position. So there's no hard and fast freezing of positions for a particular nationality. The approach is generally to try to keep it balanced so you don't have to try too many Brits and you don't have too many Americans. But it's hard to do.

There is an interesting angle. Because for many countries the Asian Development Bank salaries are very, very high, compared to what a guy is getting in Bhutan or Sri

Lanka, let's say, and so these guys will come--and they're very good, educated and highly-qualified—and they'll come to the Bank and they'll come in at a modest level, but they'll stay for years and they gravitate, levitate up through the system and they become very valuable, and when a promotion is in store they're strong candidates. The Europeans and North Americans, Australians and Japanese tend not to stay in the bank that long, so when they come in as young people, they leave as young people. So there's a concern about trying to maintain a balance of nationalities at the more senior level because of the nature of this whole longevity business.

**WEBB:** In comparison with the IDB, the IDB has always been dominated by the U.S. in an increasingly overt way.

**KATZ:** Right, right.

**WEBB:** Is there anything like that with the Japanese?

**KATZ:** Well, it's an interesting evolution, and I think it's gone through maybe three stages. It's a personal observation and other people will not agree with it, but I think the initiative was Japanese, way back in the early '60s. I think they saw it as a means for establishing a commercial presence as well as a political presence in terms of good will coming after World War II. There was a lot of, still a lot of bad feelings toward Japan in many of these countries where they had been, you know, the conquering country. And also they were essentially excluded from the markets of these countries because of this political overhang, so the Japanese saw this Bank as a sort of a double-edged approach to doing some good for the region in terms of development but also opening up commercial channels for their firms since it was clear they were going to be one of the major founders of the Bank. And in fact the agreement, when the charter was drawn up, the expectation was the headquarters was going to be in Tokyo, but there was some *[inaudible]* that went on and it turned out that the headquarters was in Manila, but the Japanese became sort of the president of the Bank in perpetuity. There was just an understanding that there would be a Japanese president. So the Japanese were interested in this Bank because they wanted to see the region developed, I'm sure, but also they saw this as a way of opening up markets for Japanese industry and business and so forth.

The Americans initially were very lukewarm to the whole idea. And then I think there was a Johns Hopkins *[University]* speech by Lyndon Johnson saying that it's more than the Vietnamese War that we're interested in. We're interested in economic development of the region, and he saw that as an opportunity to show U.S. interest in terms of broader purposes. He made a speech at Johns Hopkins where he said he had billion dollars available for economic development in Asia, or something like that, and this then became linked with the Asian Development Bank, and the U.S. and Japan became the two largest shareholders. I think they each held about sixteen percent or something at the beginning. The rest of the shares then went to the regional countries, who contributed in their own currencies or partly in dollars or hard currencies but mostly local currencies, and Europeans. So basically the U.S. and Japan had two-thirds and one-third was everybody else.

Now, the Japanese were very interested in developing the commercial side of the Bank for their own industries, so they tried to get good people into sort of important

staffing positions where they knew what was going on in terms of what countries were being funded and so on. The Americans were more interested in just sort of turning it into a good development institution, at least in the beginning days, and showing that the U.S. had an interest in Asia other than Vietnam at that point. The Japanese therefore didn't really try to dominate the institution as such, but they wanted people in key positions for commercial reasons. The Americans, on the other hand, wanted to impart kind of a western management style to it, and they wanted see if we could cooperate with the World Bank in the bilateral programs, so they were more interested in the kinds of appointments and positions.

But it was recognized by the Americans and Japanese that this--they had to ensure that the regional countries of Asia had a substantial voice, so the board was structured in such a way that two-thirds of it was really from the region but it included Japan, Australia, New Zealand as regional countries, so the western countries including the U.S. did not have a dominant position in terms of the numbers on the board. There were twelve persons, ten or twelve. The U.S. then had fairly strong people on the board, and they tried to exercise influence through the board of directors.

The initial eleven years the president was Japanese from the finance community and did know the financial side. The first vice president was an Indian named C.S. Krishna Moorthi, who was brilliant and really set the operational side of the bank up in terms of procedures, integrity and documentation, and so on. He had been economic counsellor and he was then a very senior person in the finance ministry in New Delhi, had worked here in Washington, was on the board of directors of the World Bank, so he really knew a lot about process and approach and so on, and he brought much of that to the Asian Development Bank. He was terribly influential but in a very sort of nonpolitical way. The Indians in the Bank did not get political.

So those were the major forces at the beginning: the Americans sort of looking at it as trying to make an impact on development in the region, showing their interest in terms of not only strategic military things, the Japanese were interested in the sort of the commercial development side for their own industries, and everybody else was interested in a variety of things, some in commercial activities, some in the region, some just to show the flag and so on.

Now, this has evolved. The Americans, I think, once the *[Ronald W.]* Reagan administration took office, they took a rather more negative view of the development banks, including the IDB and the ADB. The only one that seemed to prosper was the African Development Bank because of Congressional pressures and the use of the African bloc or whatever they call it. And the U.S. began to sort of—it also was running into its own budget problems at that stage, and fiscal resources were tight, so it started to sort of back away from a leadership role in the board of directors in the Bank. It backed away in terms of funding but not really in terms of trying to impose its sort of ideology on the Bank. During the *[Jimmy]* Carter administration, for example, everything that the U.S. talked about was human rights and basic human needs, and that was more of a sort of social welfare kind of approach. And as soon as the Carter administration left and the Reagan administration came in, it was private enterprise, which continues to be kind of the U.S. flag in these banks and in many respects a good philosophy.

But the interesting thing about the ADB was that it's very Asian in its character, so even when one of the major donors like the U.S. was pushing very hard on a policy line, the Asian Bank by its very nature would say, "Well, let's look at it carefully. Let's do some studies. Let's not move until we're sure we know this is the proper way to go."

And one example, for example, was when the Carter administration was leaning on the Inter-American Development Bank to do more--I guess it was called "basic human needs" at that time. They prevailed on [Antonio] Ortiz Mena to set up an office or bureau or something that tried to develop a measure of what of the Bank's activities really served basic human needs and which were--you know, there was supposed to be a target of fifty percent or something, as I recall. This was back in the Carter days. Well, the same pressures were brought to bear on the Asian Development Bank in terms of "You must do more on basic human needs, and you must do more for the poor people and never mind infrastructure"" and things like that, but the ADB never really bought that in terms of structuring itself, so it never tried to really measure how much of its activities were basic human needs nor did it set up a special bureau for basic human needs. It just said, "Look, we're in the agricultural sector primarily. These are poor farmers, and essentially almost everything we do is basic human needs and just lay off." And they could get away with it because the Americans were not that dominant in that Bank as they were and are in the IADB, so the other countries could sort of intervene and exert counter-pressure.

So--and the ADB, being very Asian in its attitude, was very slow and very cautious. It never adopted new programs until a lot of thought had been given. And then when the Reagan administration came in, again the pressure was very strong to set up a department of private enterprise right away. And about after--this took months and months and months, and they studied, you know, what the needs were; they tried to do some market analysis. And they set up a very tiny unit someplace in the infrastructure department that was supposed to handle private sector. Over the years it got larger and then they finally were so pressured by everybody--by then the private sector had really become the kind of objective of the whole development process, so they did set up a department, and they spun off an IFC [*International Finance Corporation*] kind of activity also. But it took maybe ten or twelve years, whereas the Inter-American Development Bank couldn't resist this American pressure--because the Americans were so strong--that they did it in a couple of months, you know. So there was that kind of different pressure.

Anyway, the evolution now is the Americans I think have lost their leadership role on the board of directors. The Japanese had their own agenda in the Bank and really were, didn't mind hiding behind the American lead, but when the American lead sort of vanished, then the Japanese became a little more vocal. They're more willing to step forward on the international scene generally in the IMF [*International Monetary Fund*] and the World Bank and certainly Asian Development Bank, the UN, and so on, and they are demanding a little more recognition for their financing, a little more recognition in terms of position. So the Japanese came--when the Americans sort of backed off, the Japanese sort of filled the breach.

Now I think what's happening is the Americans are not terribly interested in the institution, largely because--there are funding problems. The Bank needs a lot of soft

*S. Stanley Katz*  
*June 28, 1991 – Verbatim*

window money, and in the past it was the U.S. and Japan who were the primary sources. And when the U.S. kind of pulled back from that, and the Japanese filled the gap for awhile, but even now the Japanese are not so happy about this. So the Americans are backtracking. The Japanese, I think, have now decided that they've certainly exploited the ADB in terms of its commercial potential for them. They really dominate Asia in terms of trade, investment, finance and so on. So they really don't need this little Asian Development Bank for that purposes anymore. And they also see themselves as being broader players in the international financial arena, and I suspect they're probably looking at a senior position, for example, in the IMF one of these days. So the ADB is not so important to them anymore.

This comes about at the same time that the Bank—the ADB has two windows, a soft window for Asian Development Fund and its ordinary capital window. The ordinary capital window was used for essentially creditworthy countries like Korea, Thailand, Malaysia, and those funds were essentially borrowed on the market by issuing bonds. Its soft window, though, the Asian Development Fund, was like IDA [*International Development Association*]. It was contributed funds. What's happening now and has been happening is the creditworthy borrowers are essentially graduating. The Koreans really don't need ADB anymore; they can go to the market. The Indonesians have a debt problem, so they still come to the ADB for soft money, but they can go to the market, too. The Thais, the Malaysians, Taiwan was an early borrower from the Bank--all of these countries are essentially moving away now. They can do it without the ADB, and the ADB is left with a lot of countries who need highly concessional funds from the Asian Development Fund. These are countries like Sri Lanka, Bangladesh, Bhutan, South Pacific, Vietnam, Cambodia, all of the Southeast Asians, and the problem is that those funds have to be replenished periodically and nobody really wants to come in with big money anymore. So there's a real mismatch between the supply side and the demand side for resources in the Bank. So this is changing, and part of the problem is that the major donors are really not so keen on filling this financial gap anymore.

**WEBB:** Does the ADB have a significantly lower margin, overhead? It doesn't have all the policy analysts as the Bank [*inaudible*]

**KATZ:** It adds a certain percentage. You know, I've got to call somebody because I have a meeting with [*Douglas*] Gustafson at IFC.

[*Interruption*]

**WEBB:** We're going to be very greedy, so please let us know.

**KATZ:** Maybe what I ought to do is try to schedule to come back sometime when I'm a little less pushed.

**WEBB:** Sure. We'll have time, hopefully, to chat again, maybe in London.

**KATZ:** Are you coming over to London?

**WEBB:** We'll be coming through more than once.

**KATZ:** Well, we can certainly continue this.

The margin itself is essentially five basis points on the lending rate, and I think it's very similar to the World Bank.

**WEBB:** Is it really?

**KATZ:** I'm not sure that--I don't know how it compares in terms of actual, but everyone--it's very hard to figure out what the overhead costs are, so we sort of arbitrarily decided on a margin, and the margin I think was five basis points or something like that.

**KAPUR:** Yeah, I've been seeing these sort of--the rates because the Board [*of Executive Directors*] often here asks about comparative lending rates. And the ADB, at least recently, has a lower margin.

**KATZ:** I think the main determinant is the formula that's used to determine the basic rate. The ADB uses a somewhat different approach. I'm not sure exactly what they are anymore, but it used to be the ADB took a three-year running average--the past year, the current year, and then a projection of the future year--and weighted them by borrowings and came up with a cost and then added an administrative charge of 5.5 percent. That was the way the lending rate was determined.

**KAPUR:** One thing that we really wanted: to the extent that the World Bank is a relatively more American institution than the ADB or the Japanese, is there or has there been a difference in sort of development philosophy of the institution more than sort of, well, style and substance as well as . . .

**KATZ:** Well, I think the interesting thing was that the World Bank's--not philosophy but management systems--were very much picked up from the American and the British, you know, the line/staff kind of structure, divisions, departments and so on. And that same system was brought to the Asian Development Bank by Krishna Moorthi, who knew the World Bank, and he essentially brought a similar kind of organizational structure.

Now, in terms of philosophy, I'm not sure that, you know, there is any sort of clear body of philosophy. The Americans, of course, have their own approach. It's been traditionally private growth, private sector more than public sector. The Asian Development Bank was frankly less committed to that kind of a private sector and no growth public sector. I think even though the U.S. on the board continued to be unhappy about infrastructure projects and so on, the Bank itself said, "Look, fundamentally it's not a question of ownership so much as it is of efficiency." Now, in many of these economies the more efficient approach is the private sector. Quite right. But in some countries there is no private sector. While they wait for it they still need infrastructure, they need communications, they need this and that, so you could do it where the institutions exist that can carry it. And therefore in countries like Bhutan and some of the small islands, you worked with the public sector and you did work there. And you tried to, you know, see where you can help the private sector through, for example, industrialist states but many of the initial loans went through the public sector to an industrialist state that was, owned by the public sector for the benefit of

small private entrepreneurs. Or you would work with development institutions, finance intermediaries that often were either public sector or mixed, and for the benefit of the small private entrepreneurial group they would use the Bank as a conduit to get funds to these small borrowers, not always successfully. But I think there was less of a commitment to strictly private sector than the Americans wanted.

Now, I think the World Bank still frankly does probably more activities in the public sector--it has IFC, so it really has a window for its private sector activities and it recognizes the need for a lot of infrastructure. I think there's still a fair amount of support for public sector. So the philosophy is--you know, sometimes the words say one thing but the deeds do something else.

**KAPUR:** There's one sort of an example and it refers to subsidies. The Bank was more flexible about it in the early '70s and the '80s, especially since about, you know, sort of *[inaudible]* But like in our interview with the Japanese ED *[Executive Director]*, he mentioned that as an example. East Asian countries have used, especially as a tool of industrial policy, targeted subsidies for particular industrial groups, and although it might be to the private sector they have used subsidies rather effectively.

**KATZ:** Well, I think the ADB really has not gone deeply into these questions, whereas this is again sector policy where the Bank didn't do a lot of analysis particularly in the early years when it was very much project by project. I think what it tries to do, for example, if there's an infrastructure like power or communications or water, it tries to ensure that those projects that the users pay the charges, that there's not a subvention from a central government to these kinds of things. But where they exist, then they try to get some commitments to phase it down or phase it out over a period of time. But it's not too doctrinaire. It's really kind of more recognition of the culture and the practices in the country, and what has to be done to make it, to improve the efficiency and economic viability of the entity but not really--I mean, in some cases, if you had to charge users of water in the slum areas what the cost of the water is, it would be ridiculous, so you have to have a government subsidy. You have to at least cover the capital costs and maybe charge the people for the current costs. But there's more a philosophy of sort of working with the existing structure but try to make it efficient, you know, try to make it self-financing to the extent it's possible.

**KAPUR:** So that, having been observing this institution from outside, is it your sense that this institution is sort of becoming more doctrinaire?

**KATZ:** I don't really know. I'm not—I don't follow the World Bank that closely. I think that, you know, the Americans, the American influence is more single-focused these days in terms of the support for the private sector and market economics and so on. But I will leave you--you saw this piece I did on Asia. Basically it says that, you know, there are ways that the government has to intervene to level the playing field, if you like, and it's not simply a question of saying we're going to throw it into the market and let the market do it all. And I don't know how much receptivity to that argument there is in the U.S. government, but I think among American economists there is some idea that you can't just say the market is going to make all the decisions. It doesn't anticipate the future very well. It has a lot of internal conflicts. You're



dealing in international structure that's already established with a lot of protection and a lot of barriers and so on. And you can't simply say, therefore, give it to the market.

Now, the Americans tend to be a little bit too lacking in recognizing that there are institutional systems that have to be--you have to work within them. And their idea is, well, if everybody adopted a free market system it would be fine, but everybody's not working that way. I mean, there are certain rules of the game, and you have to play the game the way the rules are being observed. So this certainly is the case in the East European area where these companies are being advised to just, well, let the market decide, but if the market decides, they'll have to close down two-thirds of their industry because they won't be able to compete.

I'd better get on my hobbyhorse.

*[End Tape 1, Side B]*

*[End of interview]*