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Transcript of interview with

HARRY E. WALTERS

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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.

[Begin Tape 1, Side A]

WEBB: . . well, most recently it was Randy [Randolph L.P.] Harris suggested talking to you—we were having a long conversation about projects. And this is one of the areas, obviously, and we sort of set it out in the book as a chapter that I have to write. And I've been having a lot of trouble trying to understand how projects really work, in particular how really the Bank arrives at projects, decides about projects, and that was the general question that led to the suggestion that we talk to you.

KAPUR: Actually, he said that there's a good database in Africa technical department on projects, implementation, but he said, "You should really talk to Harry Walters; he helped to establish that." And so that was one. And the other was from looking at poverty and food security measure, somewhat of a newer of the Bank's poverty approach, specifically in Africa, and we thought these two.

WEBB: When I worked in the Bank I was in what was called then the Development Economics Department, people like Marcelo [Selowsky] and Shlomo [Reutlinger] were there in the social area. There wasn't much of a social area. I worked in a division called Employment and Rural Development that Mark Leiserson headed—you may remember that. Did you ever meet him?

WALTERS: I'm sure I've met him once or twice, but I never knew him well, but I know who he is.

WEBB: There were about eight people in that division, Employment and Rural Development, and only one was concerned with rural development per se, and that was I. J. [Inderjit] Singh. All the rest of us were more urbanites or concerned with income distribution in general or employment, labor market issues in general. The term "food security" didn't exist.

WALTERS: When was this?

WEBB: This was through '80, through mid-'80.

WALTERS: Yes, well, there's an interesting story in all this. I tried very hard in 1978 and 1981 to get this Bank to take food issues seriously—not food security as it's now being talked about because at that time "food security" had a very different connotation. It had to do primarily with stock levels in the world and maintaining stable supplies of food rather than the approach that's now being discussed. It wasn't--I found that to be a not very successful undertaking.

WEBB: Well, this is the other main area because to me it's completely new.

WALTERS: Yeah, well, I think what Randy's talking about is—I did a paper a year or two ago here in the region about why agricultural projects failed in Africa. And out of that came a sort of a reappraisal in the region of the rating systems that were used. I can give you a copy of that paper. And I have worked in the Bank more often in projects departments and on projects, but I've also vacillated around doing different things.

I came to the Bank from the U.S. Department of Agriculture where I had worked in the division that worked on world food problems as well as worldwide agriculture. The U.S. Department of Agriculture had an Economic Research Service, and it had five divisions that worked on domestic agricultural problems and two that worked on foreign problems. One basically provided the people who took up development jobs from the Department of Agriculture to U.S. AID [Agency for International Development]. And the other division, the one I was in, was called the Foreign Regional Analysis Division, and its job was to analyze agricultural events in the world, ostensibly to facilitate American agriculture's competitive capability. In fact, people, as you can imagine, got interested in the parts of the world that they were working on, and that became their center of gravity and they didn't pay very much attention to the competitive aspects of American agriculture.

Anyway, I came from that job. I worked with the Asian Development Bank for a while, and then I worked with the Bank as a consultant, and then I joined the Bank. But as a consequence of that previous work I did, I was borrowed back by the Department of Agriculture to do a study on food problems in connection with the 1974 world food crisis. And then I was seconded by Mr. [Robert S.] McNamara to help set up the World Food Council in 1975, '76, '77 and '78.

So my background in the Bank was I started in the Bank in the old Agricultural Department. Before 1972 there were these total departments, and if you were in agriculture you worked in one department, you worked all over the world. Then in '72 it was restructured into regions with technical departments in those regions. And then again in '87 it was restructured again. It went--each time the relationship between projects and other activities—but--so I worked on projects both in Southeast Asia and in the Middle East, Europe, North Africa and the Middle East.

Then I was seconded to the World Food Council for four years. Then I came back from the World Food Council in 1978 and worked in what was then called the Central Projects Staff in the old Agriculture and Rural Development Department. And it was during that time that I tried to get the Bank to get, to concern itself with the interrelated combination of issues that impact on food between economic policy, agricultural policy and social policy. That proved quite difficult for the same reasons it's difficult for the world to focus on those issues.

Then I worked on the *World Development Report,* the one we did in 1982. And then I went into the Africa region and worked in one of the projects for the agricultural projects divisions for two or three years, and then I was the—headed up one of the agricultural sections in Nairobi for three and a half years, and then came back to the Bank in this department. So in the Bank I've worked in Southeast Asia; I've worked in Middle East, North Africa, and in Africa, and then on these intermediate kinds of issues.

So I'm sure that on almost every subject there's somebody in the Bank that knows more about it than I do, but I know quite a bit about many of these subjects.

WEBB: You've been seeing the African part for quite a while.

WALTERS: Well, since 1982. That's one of the reasons, you know, I [inaudible] Latin America.

But what are the issues about projects that concern you?

WEBB: Well, at a very general level we're seeing some of the recent self-examination in the Bank on how it evaluates projects, and there's a task force now—at least, we think there is—headed by Joanne Salop that's been looking into this . .

WALTERS: Yeah, that's sort of on the economic evaluation of projects, right.

WEBB: Before that, the debate around the topic at the development seminar a year ago or two years ago raised the issue of what the Bank was actually doing in the long term. The sense that one gets from looking at the papers that have gone into this first task force draft report [inaudible] in effect the Bank is accepting that it's really not using cost-benefit analysis as it is, instructed itself to do in nine months. But there is this—in all of those papers, there's very little sense of how the process actually works. I mean, obviously there are thinking people out there who are looking at costs, looking at benefits, thinking cost-benefits, with a mixture of experience and intuition. The decision--a reasonably intelligent decision process is going on, but how to describe it and how to get a better sense of maybe what's being left out, for example, what's being done well, what isn't. That's the part that I find very difficult.

WALTERS: There was a classic piece of paper done years ago by Warren Baum--it was done by other people, but Warren Baum was the vice president of Central Projects at one point—called "The Project Cycle." And it was sort of like the mini-Bible, which in theory describes the project cycle from identification to preparation to appraisal to implementation. And it was a very real presentation of how the Bank went about its work, but it was also kind of symbolic in the sense that conceptually that's the way it should be done. In practice it was done in many different ways.

What I'm trying to do is link this with the question of performance of these projects, and link that to this question of the new look at economic evaluation of projects. In some ways, I'm not—I'm interested in the arguments about the economic evaluation of projects, but that does not seem to me the central issue.

Let me talk about the piece we did for Africa and then we can go back to the cycle because, in essence, there were multiple ways that projects were developed, and also the general pattern of the way this was done has changed over the last two or three decades [inaudible] the same thing.

Meanwhile let me get a copy of this paper and that will . .

[Interruption]

WALTERS: . . was that there was—there has been for a number of years the accumulation of evidence in OED [Operations Evaluation Department] that project performance, when measured against an economic rate of return or explicit objectives, was deteriorating. And the lowest level of performance was in agricultural projects and in the Africa region. And there was quite a lively debate about why this was the case.

And there were two or three papers written—maybe I can remember the names of the people who wrote them. I can't; they're not in my head right now. But the situation became quite intense three or four years ago when the rate of project success of agricultural projects in Africa was hovering around 50 percent compared to something like 80 percent in the other three regions. And questions were being raised about why this was the case.

This paper was an attempt to look at that question in detail in the Africa region. It was not done with a rigorous analytical approach. What we did was we took all of the projects in agriculture in Africa forever, everything we ever did. And we looked at--well, okay, the main concern was the rating system that we used. Projects are rated one, two, three, or four depending on, at the time they're being implemented, whether they have no problems, whether they have minor problems, whether they have serious that are being addressed, or whether they have serious problems that are not being addressed.

KAPUR: That's the ARIS [Annual Report on Implementation and Supervision] . .

WALTERS: Yes, the ARIS kind of approach. Those ratings come from the project supervision reports. The problem was that most project supervision reports were rating most projects as being successful, so that on average something like 14 to 18 percent of the projects, when you look at the ratings, were likely to be failures, which would suggest that 80 percent plus success rate. The OED evaluations were showing that in agriculture and in Africa the rate of success was about 50 percent. And one important question was why this discrepancy.

It's very obvious why that discrepancy took place, and that is that project officers who were rating projects were rating them according to whether in their opinion those projects were being implemented correctly: were the roads being built, were the buildings being put up, was--whatever the technical aspects of the project. But they were not asking themselves will this project in the long run return more than a 10 percent economic rate of return or will it achieve its very specific objectives that are laid out.

And this leads back to the question of the economic arguments because people argue about whether the 10 percent rate of return that is generally used is a valid one, et cetera. But it's very obvious the project officers were not asking themselves that question. They were asking themselves the ones I was saying, and they were therefore—in their view, the project was being implemented, but they weren't really asking themselves whether it was going to be successful in terms of returning economic benefits.

Now the economic benefits argument—there may be other explanations in the Bank. I think the main reason for the concern with the economic benefits—even though one, surprisingly, does not find it enunciated very much—is that the Bank is a lending institution, it's not a grant-giving institution. And my understanding has always been that if--that the Bank's concern was that if it lent a country money, then the returns on that money should be enough to justify the borrowing of the money. And that, more than anything else, as far as I'm concerned, explains why people were concerned with the economic benefits of the projects. Now there may be other explanations, but I think that's the key one.

Well, so we looked at two questions: one, we looked at why were the ratings different and why were the projects failing. The ratings are different because the people who are rating the projects during implementation are not asking themselves the same questions that OED is asking itself. We looked at all the projects. We looked at which countries and which projects there were differences. And there does not appear to be much pattern.

We then went to all of the project officers in the Africa region, and we sat down with them on every one. There was something like a hundred and ninety projects we had done in agriculture plus there is some hundred and seventy that are in the process of implementation right now. And we asked them to rate those projects, not according to how they were being implemented right now but whether they thought they would achieve a 10 percent economic rate of return or better or meet their very specific objectives. What happened in the process was the project officers, when asked that question, talked about past projects and current ones, came up with answers very similar to those of OED. In other words, if you ask people the right question, they'll give you the right answer; if you ask them the wrong question, they'll give you the wrong answer or they'll give you a different answer because it's a different question.

So the reason the ratings differ from OED results was very simply the project officers were asking themselves, "Is this project being implemented effectively?"

And by and large they said, "Yes."

When asked, "Will it return an economic rate of return at ten percent or better," they said, "Roughly fifty percent would and fifty percent wouldn't," which is what OED comes up with.

The same thing was true when you asked them about the projects in the pipeline right now.

As a result—okay, now, the last point is why were the projects failing. The main reasons why the projects were failing, according to the perceptions of the region, were macroeconomic difficulties, managerial or institutional difficulties and technical reasons.

In the OED explanation a lot of time was spent talking about the design of projects, that . .

[Interruption]

One of the people who wrote one of the earlier papers that caused me to do this study was a man named Gerhard Pohl. And if you haven't seen those papers, it's worth seeing. There were two different versions and they were very much resented by everybody, but they basically argued that the reason you had this phenomenon in Africa was you had this drive to lend. And project officers were collapsing in the face of this drive to lend, and they were going out and they were appraising projects in environments where those projects wouldn't work, which was not a technical project design question, it was basically the argument: if it's a non-viable economy, then there's no reason to believe projects will work in that economy, especially projects that produce things, either agricultural projects or industrial projects, and both of those kinds of projects in Africa had success rates of about 50 percent.

In any case, to the extent that the conclusions from this paper are correct, the reasons projects were failing, agricultural projects were failing in Africa, was you had failing economies or failing or non-viable managerial systems, which includes everything from the institution's quality, the quality of the local managers, salary levels, all the mechanics that go along with that, and, as I said, some technical problems.

And as a result of that study, there was a major revision, a major relook at all of the project ratings in the region last year in Africa. And as a result of that, those project ratings went from about, I think, 14 percent of projects with, that were likely to fail to something like 35 percent. So that's one issue.

Now, one can argue that the reason these projects failed was that there was not good economic analysis done on those projects. My argument is that that's not really the issue, that the kind of project probably would have succeeded in a successfully managed economy, macro-economically and general managerial, and that the reasons are very similar to those proposed by Gerhard Pohl; namely, that--not so dramatic that the institution was trying to lend and that the project officers were just doing what they were told, but that people were trying to do the things they knew how to do in environments that they knew in the back of their minds were not supportive, not specifically supportive of the project that they were concerned with, that they were not supportive of economic activity in general. And therefore my view is that the real issue that's of concern is not the one of whether the economic evaluations of the projects were done correctly but whether or not the analysis of the possible viability of such a project in the economic environment or the managerial environment in places—what was the possibility of that. So that's a different issue than is the issue that's being discussed in this economic analysis of projects, and it was a different issue than was being analyzed at this last meeting a year or so ago. There's a relationship, but I think that relationship is more tenuous than people suggest.

Now, was it right to lend in those situations, or was it wrong? It's not obvious to me. There are, I think, reasonably good reasons for saying, "Yes, I know that it's an extremely difficult environment, but I still have the conviction that doing these kinds of things in that country is the right thing to do." There are other people who say, "No, that's not the right thing to do, that if you really don't believe this thing's going to work, then you shouldn't do it, either don't lend or don't lend for that kind of thing."

There's another issue, and that is that projects that don't have identifiable economic benefits or it's indirect tend to have better ratings than projects that do. For example, a country like Ethiopia where industrial production has been flat for a decade and agricultural production has been declining almost for ten or fifteen years, nevertheless, the education projects had good performance ratings and the road building projects had good performance ratings. But it's a little hard to justify those ratings. That's another issue that we have not looked at: Why are the other ratings still considered better.

Now, what is the link of this to the whole project cycle and to the whole economic analysis? There has been a criticism of the Bank for a long, long time, and that is that it excessively tried to develop rigorous project formulations and analysis and economic analysis focused on those projects, but without relating that to the larger environment that analysis is not very successful. I have not heard that argument made too much in the institution.

There is an inference from the meetings last year and from the economic evaluation of projects is that if something were done better in the economic analysis of those projects, the projects would have performed better. And I don't think that's true. I think that—and it's proposed in this paper—that two things need to be done. Given what seems to be the cause of project failure, then more time needs to be spent in the preparation and appraisal of the project to determine whether the project that's being proposed has a likelihood of being successful in the environment it has to operate in, especially the macroeconomic environment and the institutional, managerial environment. That kind of analysis, I believe, is what should be in the risk analysis of projects, not more elaborate economic analysis of the project itself but much more forthcoming analysis of whether or not that project or any other similar project would work in that environment.

The other thing that is proposed in here is at the midpoint of a project you raise the explicit issue of the likely economic success of this project, so that you're making an explicit decision about whether you continue with it or not. If the conclusion at the midpoint of the project is that it's being implemented well but it's not likely to have solid economic benefits for these reasons that are largely outside the project itself, then what is the Bank going to do about that? In a sense, through structural adjustment and things like that, it's trying to do all kinds of things about the macroeconomic environment, which is a very important difference between now and, say, ten years ago. Up until the Bank was very heavily involved in structural adjustment, it as an institution was not doing very much about the macro environment. Now it's doing a lot about that environment, and my impression is that that will very much—if it's successful--in other words, if the Bank is successful in getting a more positive economic environment, projects in that environment will be more successful.

Also, at a later stage, the bank is doing more about the institutional managerial environment. For example, there's the very intensive discussion going on in the Bank now about governance, explicitly looking at the performance of governments, even though we're still very uncertain what we should say about that and to whom. But, you know, in Africa, Zaire is a good example. Ethiopia has been a good example. Tanzania was a good example.

WEBB: Kenya.

WALTERS: Kenya at some times. But between the governance concern, the African capacity building initiative, the very heavy emphasis now on institution-building—it's interesting that those things very much fit the conclusions of this paper, that if you're going to do something about projects you have to do something about those aspects of the environment they operate in. But that I think is just fortuitous. But in terms of making sure that the ratings relate, that there is some relationship between project ratings and project performance, there needs to be the explicit consideration of the ratings in relationship to the performance and that is happening by the adjustment downward and the—I don't think the Bank has yet gone as far as it probably will go in terms of analyzing the risks of the project in terms of the things that impact it from outside, namely macro environment, institutional environment, et cetera.

All right, back to how did all these projects come about? In theory, countries have perceptions about the things they want to do. In practice, the Bank has always been an institution that had perceptions about what the countries should do. How that is explicitly dealt with has varied all over the court. When [Julius] Nyerere in Tanzania was developing his sort of African socialist model of development, the Bank and bilateral donors and many others were quite supportive of that for quite a long time. So there are plenty of examples of when governments had strong perceptions, the Bank was willing to go along with those perceptions. There are also many examples of situations in which the Bank worked very hard to convince the government to do things that probably the government would not have done.

And so how projects arose in the original identification, and there were identification missions: In agriculture we relied very heavily on the FAO/CP [United Nations Food and Agriculture Organization/World Bank Cooperative Program], the cooperative program, which was initiated in, I don't know, I think in 1964. That's part of the story as well, because FAO/CP was established originally to provide project preparation capacity to developing countries in agriculture. Once you've decided what kind of project you're going to have, then the question is who is going to prepare that project. Then deciding what kind of projects, usually on a five year rolling basis, the Bank and the country have a continuous dialogue, through the programs department in the old days and through the new structure now, in terms of the kind of sectors they want to have emphasis on, how much infrastructure, how much education, how much agriculture, how much this, that and the other thing. This gradually crystallized itself into certain kinds of projects, at least conceptually.

In the old days they had a thing called—it had a couple of Ps in it--the program policy paper or something like that, which had a five-year lending program.

KAPUR: CPP [country program paper].

WEBB: CPP; that's it.

You'd see things in there like "agriculture unidentified," and then as it moved up in time it would be "agriculture, livestock" or it would be "infrastructure unidentified" and then "infrastructure, rural roads" or "highway" or something like that.

And this is just a digression on these things, but I think it is a problem that the Bank faces all the time because if you went back and looked at CPPs just like you go back and look at many program papers now, there was the—there is a tendency in the Bank to always put the very best face on what's happening by the government that's in power at the present time. And that relates to this paper's conclusions, because the more you tell yourself that the government's doing the right thing and then you build a program around that and the government's not doing the right thing, then in the long run you have problems to pick up afterwards. And I think that's kind of an inevitable tendency. You have programs people who are keen and enthusiastic, and they want to do the right thing in countries, and they ingratiate themselves to the government that's there.

But that's not the only thing, but the point I wanted to make about that was: to my knowledge, that is how projects emerged originally. Either someone in the Bank had the idea that such and such would be a good project in the country or somebody from the country had that idea or somebody else had that idea. Anyway, the idea got in the system. And then somebody had to prepare that project, either a private consulting firm, the government itself if it had the capacity to do it, or, in the case of agriculture, the cooperative program unit. And for a long time we relied very heavily on the FAO/CP to prepare agricultural projects. And they would prepare those projects completely, and they would present the Bank with a completely prepared project. And this refers back to the old project cycle because it made a big religion out of identification, preparation and appraisal, and there was supposed to be a complete break between appraisal and preparation. FAO/CP was to design the project technically correct and also be supportive of the government's concern with that project. The Bank would then appraise the project in a totally independent way, which gave the Bank the flexibility of saying "yes, this" and "no, that," et cetera.

What's happened over time—and this is back to the question of how the system has evolved—is that as time has gone on and the types of projects the Bank does have changed, my general impression is that Bank staff have gotten progressively more involved in the preparation of projects, and now I have no idea what the proportion is but

I would say from my point of view at least 50 percent of the projects that are prepared in Africa are basically prepared by the Bank.

Now, the difference between the old system and the new system is that you did have a high measure of detachment n the old system. You could say that FAO/CP did a good job of preparing this project and you would more or less accept it as it was, or you could say it did a bad job and you could change the whole structure of it, but you had a chance to be quite independent. It's pretty obvious that if you are primarily designing the project yourself for the Bank and then getting ready to appraise it, it's not very likely that you will prepare something that you will then say is not very good. I mean, it just--it doesn't follow logically that you would. And there are good reasons for this and bad reasons for this. The good reasons are that it involves the Bank more in the process, it makes them more sensitive to what's going on, the projects have more nuances that are relevant. The disadvantage is that the people are a part of the problem as well as part of the solution, and that is very much a factor in the present process.

If you go to structural adjustment projects and that sort of thing, it's even more elaborate. The Bank, while we very much desire government commitment, it's pretty obvious that in the majority of cases, you know, something like 90 percent of the intellectual power that goes into designing structural adjustment projects is Bank staff itself and therefore it's hardly relevant that someone else is preparing it. This was much simpler in things like a dam project or a roads project or something in that past. There were perfectly reputable consulting firms that did a wonderful job of designing such projects and you could have this detachment. There is no one that goes around designing structural adjustment programs completely independent. Should they be independent? Probably not, because of the reasons that surfaced here. You know, if you design something well but it's not working in any operational sense, then it's not going to work.

So that the beauty of the project cycle, the clarity, the separation between identification, preparation, appraisal, and implementation has changed a lot. Even on the implementation side, you quite often find now many of the same people who've appraised the project are also people who are working on it. And so you have people locked into the system all the way through, for better or worse, whereas there tended to be a real line of demarcation also with supervision, so that in a classic case, the government and the Bank in some interfaced way identified the project, FAO/CP prepared the project, one group of people in the Bank appraised that project, and another group of people in the Bank supervised it. You don't have that kind of complete separation. And, as I said, it has advantages and disadvantages.

Now, to the extent that I understand the project process, that's basically what it is. What has happened is also what you see, and that is project performance has deteriorated very sharply over the last twenty years for many of the reasons that are mentioned here. It may also be because of some of these things.

Now the question of economic appraisal of projects. The Bank has a very elaborate process and at its extreme ends, like were discussed in the meeting last year, the analytical possibilities for economically analyzing projects were always way above the operational capabilities of many project economists and so almost everybody used shortcuts. Almost no one did the kind of analysis that is discussed, for example . . .

[Pause, seems to retrieve books]

This is sort of one of the bibles. What people used were books like Price Gittinger's sort of cookbook on how to manage project, which is very good. But the point I'm trying to make is that the kind of analysis that's called for in there, which is in a sense what's being discussed in this rethinking of the economic analysis of projects, and much of what's in there is contained in the operating manuals—was a level of sophistication that was carried through in some projects but in my impression is in the vast majority of projects it was not. There wasn't time, there wasn't the analytical ability, people had differences of opinion. It was just too complicated in fact.

And my more fundamental concern is that—I, for example, have no problem with what's in there, or even more elaborate systems. I don't have any problem with what's in here. This is probably good enough for a large number of projects. That's even better. For certain kinds of projects.

But the problem is not, in my estimation, with the projects so such as with the environment in which they operate. And that is not something—in theory that's discussed in here, but in practice it's not. Now, when you do things like analyzing shadow pricing relationships, opportunity costs, a sense of the real exchange rate, domestic resource cost analysis, all those things are efforts to correct for the imbalances between the financial cost analysis in general and the economic analysis. In other words, "If the economy were different than it is, this would be the situation." And this kind of analysis explains what those differences are, but it doesn't tell you whether or not, if the differences are great . .

[End Tape 1, Side A]
[Begin Tape 1, Side B]

WALTERS: . . so I'm much more concerned with the question of some of these subtleties.

And there's another aspect to the issue, and that is what's the relationship between projects and project lending now and between other kinds of lending. In the Africa Region it's something like twenty, twenty-five or thirty percent is structural adjustment or sectoral adjustment lending. There are other kinds of lending as well, technical assistance, et cetera. So the sort of the absolute relevance of projects has declined, although I think it will probably rise again. The—you're also working in an environment in which changes in the larger environment, both the macro economic environment in these countries and the institutional environment, is changing at the same time you're looking at projects. And in a--hopefully the first two changes will improve the environment for the third one.

I think it probably would have been better for everyone to realize that nothing was as sacred as it was originally presented and that the issue always was more an issue of being very clear about the collective impact of the environment on the project, at least as much as being concerned with the quality of the project itself, either its technical quality or its economic feasibility. And that was—that is inevitably much more a judgment question, although the analysis could be done.

For example, there's been this—there was--I can't remember the name of it now but I've got a copy of it somewhere—but there was a very detailed set of studies done about five or six years ago of direct and indirect costs of policies on agricultural projects. What's her name? The woman who was . .

KAPUR: Uma Lele?

WALTERS: No, not Uma Lele. She was in charge of economic analysis here for a while in the Bank.

KAPUR: Anne Krueger?

WALTERS: Anne Krueger. [Alberto] Valdes was involved in it and a number of other people. Anyway, they did—I don't know--eighteen studies or something like that. I can't remember what the name of it was, but something about price policy analysis. And what it shows is that in most countries the indirect costs of adverse economic policies is even more of a cost on agricultural projects than are the direct costs and that in many cases they go in the opposite direction. In other words, while you had policies in the sector that were designed to reinforce the sector, the aggregate impact of over-valued exchange rates and things like that wiped that out and then in many countries you have a tax rate on agriculture of close to 50 percent.

If that's so—and there's no doubt in my mind that it is so—then one question you should be asking yourself when you're doing an agricultural project in a country is if the collective impact of the direct and indirect price policies is a net, say, 50 percent tax rate on agriculture, is it likely that any agricultural project would be able to survive in that environment. The chances are probably it's not. If the management of projects, because of completely bloated public bureaucracies and almost zero wage scales and no independence and no truly viable management system can be in place, is it likely that a project will work very well, even if you put a project management team in there to run it for five years? When that team is gone, what's going to happen? I think the answers are fairly obvious. They probably won't work, and in many cases they didn't work.

So, you know, I probably know more things I might talk about, but I don't know whether this is relevant to what you're concerned with.

WEBB: Very relevant. This is really helpful.

If there's a 50 percent tax on agriculture, if you apply cost benefit analysis according to [Lyn] Squire and [Herman G.] van der Tak probably all your projects that looked like failures would be considered successes even because you would count that as a benefit, all that tax work.

WALTERS: Well, it depends--that's one of the points. It depends on what conclusions you draw from the depth of economic analysis. And I am not the sharpest economist in the Bank; there must be many others who are—I know there are many others who are more brilliant than I am. But it does seem to me that, you know, if there is a flaw in the approach, it's something like this, you know: So what? If in an improved economic environment this project would be beneficial, if you don't have that improved economic environment, what difference does it make? It's nice to know these things, but it's not necessarily operationally very relevant because you're saying that, you know, with the shadow price of labor the economic benefits of this project are superior to what the going cost of labor is in that country, but that's not what affects it.

Now, there's another side of this issue, and that is that—I think it's fair to say to many of my, about many of my colleagues, and it would probably be true of me, too, that a lot of them were not up to the depth of this analysis, and they were going on more simple notions of economics, sort of gut hunches, they really didn't want to do the work that would be involved in analyzing these issues, and probably they were not skilled enough at analyzing those issues. And then the question of, you know, if they could have done the analysis, if they could have done it right, would they have been able to present the conclusions in such a way that it would have made an impact on higher managerial decision making? That's a moot question.

I once sat in a dinner one night in Nairobi with two or three senior Bank officials and three or four yeoman Bank employees. And there has always been this argument in the Bank, you know, "I always knew it was a lousy project but you said I had to do it." ("You" being the management.) And one of these managers said, "Give me an example of when you knew that something would not work and you made that argument to any of the managers of the Bank and he told you to stuff it, we were going to do it anyway." And nobody around the table could come up with that kind of an example.

There's a certain revolving ethos in the Bank that may or may not be true but probably are not relevant. On the one hand, it's very clear that the Bank is an institution whose raison d'etre is to lend money and therefore there is some driving force to get the money out. And you hear this all the time in the Bank. By itself that's neither a good thing nor a bad thing. On the other hand, you hear a lot of people at the project level saying, you know, "I knew it was a lousy government or I knew this or I knew that and I could have always told you that it wouldn't work," but they are the same people who actually prepared projects. Were they being dishonest? Were they knuckling under to a domineering management? My analysis of it is no, they weren't, that it is a configuration of vested interests.

Clearly the management is interested in moving money, as I think it should be. It should also be interested in moving money in the most intelligent way. And I think if you push any manager against the wall, he would say, “You’re damned right, that’s what I’m interested in. But don’t come and tell me that I can’t move the money because there is no intelligent way of doing it because I’m convinced there is.”

But in any case, there’s a certain force there. How individuals, either economists or project officers or engineers, how they relate to this force, how capable they are of making arguments pro and con is another factor in it.

Back to the CPPs: I don’t think you can have a group of relatively young people or new people to a given country situation whose vested interest is to do something in that country, you can’t expect those people to go out to that country and just say, “Look, it’s a lousy country, it’s a lousy government, nothing’s going to work in this country, we don’t have any business being here.” Forget about the question of the senior management wanting to push money. These people have a vested--they want to do things. Either they want to do things because they believe they’re virtuous or they believe they can be done or they believe that the management wants it done. It’s very hard to come to conclusions about that.

It’s also very obvious that the Bank, despite its argument to the country, does go in waves or fads. People begin to believe that something is a better way of doing things and they start doing a lot of things that way, maybe rural development projects. Are we in a fad situation now with food security and with rural development and social dimensions of adjustment—you know, it’s a big argument all the time.

But clearly it’s a different Bank as well. Twenty-five years ago we were putting money into roads and dams and power plants and stuff like that. We’re now putting money into a whole range of things, including large amounts of money into structural adjustment, et cetera. It’s a different kind of institution, and it’s doing different kinds of things.

In the earlier stages when there was, I think, a desperate need for infrastructure and a lot of other things, I think it was also fair to say it was kind of a reasonably safe thing to do. Countries do need roads, they do need dams, they do need water systems, they do need electric power. When you get into the question of how do you run a better ministry of agriculture, how do you run a better ministry of finance, should you take care of people who are poor in your country at the same time you take care of other people, you get into a range of things that I think defy the capacity of people to be objective. You know, it hinges on what people think.

WEBB: You know, for that reason I find something that’s surprised me a lot is the force that’s given to these numbers that supposedly tell you definitely whether a project is a success or failure when the objective is so diverse. I think I wasn’t aware of the fuzziness of a lot of the objectives and the subjectivity that has to be involved. And yet in the end it’s essentially the financial rate of return that’s calculated without going into the shadow economy, by and large, most of the time. And that's used to hinge a lot of self-questions and debates. Is this unfair? Am I exaggerating?

WALTERS: I don't know. I mean . .

WEBB: The institution doesn't want to seem to give up its one great objective, apparent objective.

WALTERS: Well, again I think it goes back to what I said originally. I think there is a difference between the Bank and most other development agencies, and that is that, for good or bad, the Bank is lending money. It's either making Bank loans or IDA [International Development Association] credits. And even though you can argue that an IDA credit is practically the same as a grant, it's not really. Governments have to pay those loans back, and therefore I think the Bank is obligated—if you were to ask me whose obligation was it to not have the debt crisis, I would have said, "It certainly was the obligation of developing country governments in the last two decades, but it was also the obligation of the banks that lent them the money." So there is that kind of obligation. Has the Bank carried it to an extreme? Probably yes.

Is the whole development process such a fuzzy kind of thing that one should have less rigid perceptions? I'm not sure myself what the answer to that is. There are three or four answers that I could give. One is—it's kind of a pejorative inference but not meant to be—there are fuzzy sides of the UN system. I mean, it's UNDP [United Nations Development Program], WFP [United Nations World Food Program], FAO, et cetera. You know, if they're doing their job and the Bank is doing their job, then you should have some kind of equal representation between the less precise perception. My own experience with all of these institutions is I am more confident that the Bank is probably doing the correct thing in a number of areas than I am with some of the other institutions. Now maybe that's just bias, but I don't think so.

It's very clear to me that less elaborate but more thoughtful economic analysis of projects that encompass the things I was talking about would have been more practical and more useful. It's also clear to me that a certain amount—what proportion I don't know—of the mechanics of the way projects are evaluated or prepared, all the numbers, as you say, is both unnecessary and artificially precise. But I find that even when I get in this kind of a discussion—and this is not the only time that it happened—I myself am somewhat reluctant to give up some of the things that I think originally or in some sense still do reflect some of the hard-nosed concerns of the Bank. Now are those accurate hard-nosed concerns? Are they convoluted numerical concerns? It's very hard for me to say. But since I basically accept what is the Bank's idea of development--namely, that you really have to have growth to have anything else and growth means that things have to be produced and they should be produced efficiently and people's incomes need to increase--then it seems to me some method of making sure that that's happening is necessary. Does the Bank have the right methods of determining that? I think it's undoubtedly exaggerated in many cases.

I remember, as a matter of fact, when I read the first draft of this book before it was even published, I thought to myself, you know, “Who in the world in this institution is going to do that kind of thing?” The point I’m trying to get at is that I think if you have no measures of success or performance, then I think you basically have a very subjective and possibly chaotic environment. I’m fairly sure that the Bank has too many rigid measures of success or failure and they have handicapped it in many areas, but if I could strip some away I don’t know which ones I would want to take away.

But I am also convinced that—well, okay, a third aspect of it is, when it had these measures, and this is also replicated in structural adjustment, what is the position the Bank should take about them? Now to be fair to the institution in the past, there never was a time that I remember in this institution when the people who were preparing the projects, some of which succeeded and some of which failed, did not want to take a stronger stand vis-à-vis the government about its policies than we ultimately took. So that, you know, one side of the question of the rigidity of the standards is would the Bank have been more successful and would its projects have been more successful in developing countries and would those countries have been more successful if the Bank had been more rigid about insisting on many of these yardsticks. I don’t know the answer to that question, but I do know that part of this problem of how this situation has evolved is that the Bank was not as rigid in saying what it thought would work and what it thought would not work. And so it’s kind of a jumble.

It also is part of this issue of, you know, where you stand depends on where you sit. When I look at development, I have a real schizophrenic—and I’m aware of this in my own head—one part of me says, “Look, the issue is you’ve got a lot of poor people in the world and you know what those poor people need. They need food to eat, they need water to drink, they need some basic medicine, they need some basic education. Then they need to be able to get around with some sort of infrastructure and stuff like that. You’ve got a lot of resources in the world; why not provide those things?” I also know that it’s by no means that simple.

The Bank originally was very much locked into this orientation towards growth, the need to be production and efficient, the need to have a return on investment. And I still—I have no personal problem in accepting the fact that to some important degree those objectives should have been insisted on by the Bank and still should be. I also am perfectly happy to accept the Bank’s involvement in soft social sectors where I think there’s no way of having these kind of criteria. But I also know that I believe that if the Bank were to move toward soft social sectors without insisting on the growth components, that there’s a very good chance that its efforts would be totally unsuccessful. And it just means that, you know, I’m not the person to give you the answer. There are a lot of opinionated people around who know what the right answer is, but I don’t know what the right answer is.

I also think—I have a friend, now he’s--Larry Meinie [phonetic]r, who used to be in charge of—he was a, for a long time a sort of the senior coordinator of NGO [nongovernmental organization] activities in Washington, and I think he works for ODA

[U.K. Overseas Development Association] now. And he and I have had a running battle of who is doing the right thing for years. And one of my battles was—one of my arguments with Larry is that one of the real problems in the development business is that those, all of those people who are concerned with development are not on the same bus, although their activities are more often complimentary than they are opposed to each other. I mean, there are some things I think the Bank can do better than other people, and there are some things I think it can't do better. And bilaterals should do some of those other things and NGOS should do other things and other UN agencies should do some of those things.

I can give you examples, though, of where I think the agencies that should have done those things have not done them. For example, we've done a paper just now, recently, on food security relating to disasters in Africa, the whole question of droughts there intermingling with military and other kinds of conflicts and that sort of thing. But it's very clear to me that if the Bank were to organize itself to try and seriously address these questions in Africa--methods of prevention of drought or methods of prevention of the consequences of drought--the impact of droughts in Africa would be much reduced. Now, one of the reasons the Bank has not done this is it's taken the position that relief activities and things of that sort were properly the responsibility of other UN agencies: UNRO [United Nations Disaster Relief Office], WFP, et cetera. That process has generally been quite poorly managed by the UN system.

I also think the movement of the Bank into many social sectors in the last eight or ten years is basically the result of other agencies in the UN system and bilateral agencies whose responsibility—or at least they had it in their charter of activities—simply did not do the job they should have done. Now, a problem with the Bank getting involved in these things is as soon as it does you get a very rigid, tightly geared up institutions, with all these numerical methods that immediately starts to offend people.

The structural adjustment process is another example. There's no question in my mind that without structural adjustment, many of the developing countries in the world would have blown themselves right off the face of the map. That does not mean that the bankers in New York and other people were not responsible, but . . .

In other words, things were going to hell, and they would have gotten much worse. Once the Bank got involved, though, in trying to lead, force, influence, guide this process, then a lot of the rigidities in the way the Bank does things—you know, a certain set of perceptions about what you should do and then you go from thing 1 to thing 2 and thing 3 and you have this measure of devaluation and this measure of that—a lot of things happen as a result of that. But, you know, the argument could be made just as well that it was clearly the job of the governments of these developing countries to have made these adjustments long before the Bank and the IMF [International Monetary Fund] ever got involved.

So, you know, I don't know whether this addresses the question you are raising, but I find in almost all the discussions I have outside the Bank, that I have a real problem with what

I consider “fluffiness.” Inside the Bank it’s very clear to me that there is a tendency toward arrogance, there’s a tendency toward narrow-mindedness, there’s a tendency toward rigidities, there’s a tendency to believe that people in the Bank know better than anybody else how something should be done. That, I think, is a problem of going around and selecting twenty-five to fifty young professionals a year out of 10,000 people who want to work for the Bank. You pick some of the smartest people in the world from everywhere, and you nurture them up as your managers. They’re not likely to be the kinds of people who are very humble, and if they work in this environment for a long time they’re going to be less humble. And I always felt, from the very first time I started to work in the Bank, that the Bank resembled more a nineteenth century factory than it did a twentieth century institution. I mean, a lot of the rigidities come from way back.

So, again, I see—now I have this general incapacity. It’s much easier for me to see a lot truth in many arguments than being able to fasten on one and saying it’s the right answer and the others are wrong. I also think there is an argument that goes way beyond all of this, and that is the whole development assistance concept is what we are all doing collectively, what we should be doing. Would the developing world be better off had nobody been in the development business in the last twenty or thirty years or would it be worse off? Should Africa have twice as much concessional money as it has now or half as much or none? Should governments be forced to the wall and say, “Okay, it’s your problem. Work it out”? There are as many technical assistance people working in Africa as there are Africans, trained Africans who have left Africa. A few of them come from the Bank. The vast majority of them come from bilaterals agencies, NGOs, religious organizations, all kinds of people. In other words, even if the Bank were right from its perceptions, it might very well be wrong in terms of that’s the wrong thing to do, period. And again I don’t know what the answer to that is.

There are many people you’ll find in the Bank, for example, who argue that it’s up to the Africans to sort things out, if it takes five hundred years, that’s their problem. There are people in the Bank who say we should absolutely be able to cut off lending and say, “Look, we will not lend to you if you’re going to go on and do these things.” There are other people who say you can’t do that. And what the Bank ends up doing is really a compromise among all these things all the time. And I really don’t know.

But what I do know about this question of the rigidities is despite the rigidities of the institution it’s doing all kinds of things that are in very fluffy areas, especially now. My own personal argument is that probably the Bank would be more constructive if it were doing more of the things it used to do—namely, roads, infrastructure, power systems, things like that—less involvement in how people managed their economic environments but on the other hand was more rigid about certain basic economic parameters. In other words, my own personal view is the Bank should involve itself at the macroeconomic policy and at the basic infrastructure end but leave more room in between for people to sort things out. There are other people who feel quite strongly in the opposite direction. And there’s a very good argument, you know, if the Bank goes on building roads and those roads are all falling apart because nobody is taking care of them and what’s the point of that. It’s a good argument.

And in the two or three situations that I have been involved in where the question was, "Do we cut off lending or not," I have found that I have been one of those people that argue we should not completely cut off lending, we should do certain kinds of things that in the long run we think will be supportive even though in the short run we don't think they'll work very well. And so I think I come out, as I said, quite schizophrenic.

WEBB: There's one [inaudible] people do ask themselves these questions. I don't think you'll find many people asking those questions in the Fund.

WALTERS: Well, it's true. I mean, what comes out of the Bank is kind of like an iceberg. The turmoil that goes on inside the institution is quite tumultuous. The net result, in my experience—well, there are two things I've always said about the Bank. If you have a good idea and you're smart enough to develop it in a way that is really convincing, you can do anything you want in the institution and the institution will do it. The problem is there's a lot of other smart people in the Bank and they have other ideas and those ideas are always competing. But nevertheless, it has never been my experience that people were short down because they were told that that was a nonviable—in other words, they were not told they couldn't do something because there was some policy that said you couldn't do it. They may have said that was the reason they couldn't do it.

The other thing about the Bank is that unlike most other institutions that are involved in this activity at this level of intensity—you know, something like 25 billion a year and running around and interfering in everybody's lives—is that in most situations you are indeed working with people from all over. You really, in this institution, whatever ideas you have, they have to be tested against Pakistanis and Indians and Dutchmen and Sri Lankans and a lot of other people. Now, does that give you quality or doesn't it give you quality?

In think, in the long run, I think those two things, the fact that ideas really do depend on the quality of—I mean, what gets done depends on the quality of what goes into it and the fact that you have this interlinked configuration of a number of pretty smart people but coming at it from very different social perspectives has in my mind at least the possibility of not being so quickly overrun by fashions and fads as do national institutions from almost anywhere. It doesn't mean that the Bank isn't manipulated from outside and from certain people in the management and stuff like that: it clearly is, but . . .

I guess I have one other feeling about the whole thing, and that is that in the end the quality of what happens in places is really a function of the quality or the capacity of the people who are in those places where these things are happening. I would be perfectly happy to let the relative importance of the Bank be dictated by the quality of country's perceptions within countries themselves, not by outsiders, and by the relative capacity of institutions that are interfacing with the Bank on many issues.

I think that one of the handicaps of the Bank in the last twenty years is it's become relatively more powerful in the development business than it was, say, twenty years ago.

A number of key bilaterals have reduced their relative significance, and a number of institutions, from my point of view, have more or less slit their own throats, and FAO is one of those I'd put in this category. It's an institution I feel very sympathetic to, but the way it's been run for the last fifteen years has been very self-destructive to the institution, to the question of a powerful and legitimate voice on agricultural issues that is separate from the Bank.

Now whether or not this relates to UNICEF and WHO [United Nations World Health Organization] and other people like that I'm not in a position to really say. But . . .

I also think that probably--maybe not just the Bank but certainly the development assistance community—could clearly have done more to strengthen the capacity of individual countries to exert themselves. You know, the fact that you've got 25 donors in a country, each one with some other axe to grind, is obviously very destructive and things like that. It's also very obvious that, you know, you—what is the best way to facilitate or encourage or support a government to be a good government? The government in this country, for example, as far as I'm concerned, leaves almost everything in the world to be desired, but it's not, you know, something that somebody has an option on.

You know, who is responsible for where Tanzania went in the last twenty years? It's a lot of people, but ultimately it's Nyerere and whatever that matrix was. Who is responsible for where Zaire has gone? Now, that doesn't mean that the Bank was not responsible. I mean, the Bank helped Nyerere do a lot of terrible things until it decided it just couldn't help him do those things anymore. The Bank has done the same thing in Zaire.

Is there some external force that can bring about or encourage better government? I don't believe it, you know. I mean, somehow it's up to people who are there to somehow figure out what they have to do. And the problem with that is it's a nice thing to say, but it means—usually it means people have to lay down their lives and have to do a lot of other things that are damn uncomfortable.

I don't know. Maybe we are getting quite far afield from what are your main concerns.

WEBB: I would like to get on a bit of a history of food security. Do we have time for it, because we have to . .

WALTERS: I'm sorry, but I was just going to go into that. Do you want to get together at some other time on that issue?

WEBB: I'd like to very much, if we can bother you again.

WALTERS: Fine. No, because I'm—it doesn't sound like that's what I am concerned with. I sort of got distracted by these other things, but I would . .

WEBB: It's not a distraction for us.

WALTERS: I would like to talk to you about it for two reasons. One is McNamara did lend me to the World Food Council and I did take it very seriously. The results of that were very unsatisfactory, both the results of the Council and I think there are a lot of reasons for why that was. And also when I came back here, ten, twelve years ago from the Council, the issues involved in food security are both subtle and also sort of stretching issues and, you know, stretching very much relates to what we're discussing about the Bank. It's not an institution which stretches very easily in new directions unless you can make some very powerful arguments.

So, if you'd like to come back, I'd be glad to meet with you some other time just to talk on that issue.

WEBB: Great. Okay.

WALTERS: Do you want to set up a time now or arrange it later?

WEBB: Well, I think we'll do it in December. We're going to be visiting Asia in November.

KAPUR: I'll be on the email system so I'll send you . .

WALTERS: Okay, fine. That's fine.

[End Tape 1, Side B]
[End of interview]