THE WORLD BANK GROUP ARCHIVES

ORAL HISTORY PROJECT

Transcript of Interview with

Declan J. Duff

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Interview by: Charles Ziegler

[TRANSCRIPT PREPARED FROM AUDIO RECORDING.]

Declan J. Duff

Session 1

April 3, 2012

[Begin Tape 1, Side A]

ZIEGLER: Today is April 3rd, 2012. My name is Charles Ziegler, a consultant with the World Bank Group Oral History Program.

I have with me in the Archives of the World Bank Group Mr. Declan J. Duff. Mr. Duff began his distinguished IFC [International Finance Corporation] career in 1986 as an investment officer. Successive promotions found him as director of IFC's Telecommunications, Transportation and Utilities Department beginning in 1997. In 2000, he was appointed as Director of IFC's Infrastructure Department and in 2003, Mr. Duff became Director of the IFC Municipal Fund. He became Vice President, Industries, in 2005 and retired in 2009, then becoming an IFC consultant.

I'm very glad you were able to take time from your busy travel schedule and pay a visit to the World Bank Group Archives and participate in the Oral History Program.

DUFF: It's nice to be here.

ZIEGLER: We'll keep it simple. I'm Chuck; you're Declan; and we'll go to it.

DUFF: Okay.

ZIEGLER: We'll begin very simply. When and where were you born?

DUFF: A long time ago in 1947 in Cairo [Egypt], which was a slight accident too, in Egypt where my mother was -- and my father worked in the UK [United Kingdom] Foreign Service, so

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ZIEGLER: It's an Irish name.

DUFF: -- I spent my first half year there.

ZIEGLER: You have an Irish name.

DUFF: Irish name, so Irish mother.

ZIEGLER: Please relate something of your early life in education. Now, you were saying you were born in Cairo.

DUFF: Yes. And I didn't spend all that long there. I was there, only, for a half a year and then went to the UK where I lived for the next, well, 25 years. And went to a range of schools there, moved around the areas of London [England], and eventually went to boarding school, in the UK fashion, close to Oxford [University].

ZIEGLER: Which college at Oxford?

DUFF: No, no, the school was near Oxford.

ZIEGLER: Oh, oh, sorry.

DUFF: And then I went to Cambridge [University] later on.

ZIEGLER: Which college is that at?

DUFF: At Queens.

ZIEGLER: Queens.

DUFF: At Cambridge, yes.

ZIEGLER: Your CV [Curriculum Vitae] indicates that you have a BA [Bachelor of Arts] in Natural Sciences and an MA [Master of Arts] in economics, seems to me, two quite different areas of expertise. What accounts for the switch?

DUFF: Well, that's a slight misnomer because actually it was a BA, which matured into an MA, actually, at Cambridge University. But I mean, in terms of what I focused on, one of the strange things that happened in the first week of boarding school was that they came along at about half past 6:00 in the evening while we were doing our so-called prep, this was the homework, and someone said, arts or science, and that was the point when you were expected to choose between the whole range of subjects.

ZIEGLER: Just like that, so to speak.

DUFF: Just like that. I chose arts and actually changed to science when I was about 14, so I reversed that decision, but when Cambridge was over, so again, I actually did half the course in actual sciences and then thought it would be interesting to get into a softer area; in a way.

ZIEGLER: Yes.

DUFF: The answers are not either yes or no. They're slightly vaguer in economic senses.

ZIEGLER: Economists want to emulate physicists in terms of precision and all that. It isn't going to happen, but --

DUFF: Yes. We don't normally get to it, so that's right. So anyway, I changed to economics and enjoyed it. When I graduated, I continued to work in economics with [inaudible]

Commercial Bank.

ZIEGLER: Yes, and what were some of your work experiences before you joined the International Finance Corporation?

DUFF: Well, using the economics, I joined a so-called overseas bank in the UK, which was actually operating in Asia and in Africa, doing quite a lot of work on proposed new investments there, so where they were looking at having new operations, which meant having a look at markets and recommending what looked good. It expanded quite a lot while I was there.

ZIEGLER: Which bank was this?

DUFF: National and Grindlays, which became Grindlays, which became Australia and New Zealand Grindlays Bank in the end. I was there at the time that Citibank had just bought a share in it. It was an interesting time because they were looking at absorbing a very old-fashioned UK bank. So, you had all the clash of cultures and it also meant I spent almost a year in the U.S. [United States] training with Citibank, which was also good, actually, [inaudible].

ZIEGLER: Where in the U.S. was that?

DUFF: In New York.

ZIEGLER: New York.

DUFF: In the headquarters, yes. And then went to a small investment bank, which was called [Swiss Warburg?, S & G Warburg? inaudible], which had a fairly short life, actually, I know that. After that, I joined a U.S. bank operating in London, Mellon Bank, which was a corporate bank, and spent, what, ten years there all in all, beginning in the UK, and then I was transferred back to their headquarters in the U.S. And I was actually the first foreigner to be absorbed in their headquarters, which was interesting too.

Worked on international risk, which again, had a chunk of economics in it, actually, and I was on the country risk committee. So, we were having a look at how much exposure the bank should have around the world, and then also handling its international risk. From that, went into the office which was looking after the Middle East, and that happened to be in Greece, but it was just a location for travel into the region.

ZIEGLER: That would have been about what time period?

DUFF: That was in the late-'70s, early-'80s, so 1979 to about '83, '84. And at that time, it was quite fun because we were beginning to look at Africa as well, so I was also, in part, responsible for the bank opening up into new activities in Africa and trying to find --

ZIEGLER: Sub-Saharan Africa?

DUFF: In sub-Saharan, yes. Well, and North too, actually, so it was the whole continent. We expanded work in the Middle East, so that was mainly trying to collect deposits and investments, but lending in Africa. So that involved persuading a conservative U.S. bank to open up in emerging markets.

ZIEGLER: Did you do that successfully?

DUFF: Yes. In terms of the portfolio, it was modest, but, yes, it worked. It worked okay. And, again, in terms of persuading them to do things they hadn't been doing. Yes, it was really quite successful. That was in part because, as a member who was a former member of the risk committee, I was treated as a trustee, maybe, and that was a [inaudible], so it was helpful to have a reputation for being fairly conservative
[inaudible].

ZIEGLER: How did you become an IFC staff member?

DUFF: Well, then I moved back to London in about '84. And that was a fairly depressing period for banks. Activity was slowing. I had enjoyed the work on project finance that I had been doing a lot. And one part of the work of reviewing these new markets, I'd always gone and seen the World Bank representative in a new country, seeing IFC at work as well, but I mean, mainly the Bank.

ZIEGLER: Which usually has a larger presence anyway; the Bank does.

DUFF: Yes, but I mean, also, in terms of who you go and see if you want the local knowledge. At that time, the Bank was preeminent, actually, always helpful too. And the more I looked, the more I liked the idea of getting closer into project financing. What happens in commercial banks is that you are often in a competitive position in making bids and you do a great deal of work on a proposal, and prepare designs, and vet it through your authorities, and then Chase Manhattan, or whoever it was, offered the same thing at an 1/8 of a percent less, so you had quite a lot of work, which ended with losing bids. That's something that is not an issue in IFC and the Bank.

And then I had some friends, also, who've been working in IFC who gave really quite strong reports of it. IFC advertised in late-'85, I think –

ZIEGLER: So you were spotted by an advert.

DUFF: Yes. They were founding a new department for South Asia, Asia split, and hiring a few people. And the only issue was that I, at Mellon, had quite a responsible job. I was in charge, then, of all new business in Europe, Africa, and the Middle East. I was also VP [Vice President], for what that means --

ZIEGLER: Like the Bank, there are a lot of them.

DUFF: Assets of $3 billion, or whatever, so, yes, I moved down in terms of type of status; and pay too. But that was the only sacrifice.

ZIEGLER: What were the major assignments that you had early in your IFC career? Now, you started as an investment officer--

DUFF: Yes. And I joined as an investment officer in South Asia and spent quite a lot of time in my early days in Nepal on some problem credits.

ZIEGLER: Okay. I was going to say, Nepal wouldn't strike me as a particularly attractive area for IFC. I'm totally amateur at this.

DUFF: No. I'll go back to it, but it was a very good learning experience, actually, because the project had been reviewed --

ZIEGLER: Which project was this?

DUFF: It was called Nepal Orind Magnesite. And it was a product that was highly specialized used in refractory bricks, so it's highly dependent on steel mills and how they're treated, and if they're treated badly and cooled down a lot, then they have to be re-bricked. So, it's a hard market to understand, and frankly, IFC had entered it without really understanding it.

There was a period when IFC was quite keen to do new business in all its countries of operations and there was a rush to do something --

ZIEGLER: Anything?

DUFF: -- yes, in a number of countries where our operations had been small. This was one such, and it was a mistake, but we found new owners for that, but it never really solved.

ZIEGLER: So IFC essentially got out of that particular investment.

DUFF: Well, IFC lost money on it too, so, yes, we closed it. And then, also, did work in India. And again, the first project was quite helpful. I was quite lucky in my early assignments. There were three who would, and that we also mentioned, Pakistan, which was a tractor factory, which had been told to localize its supply chain, and this was --

ZIEGLER: And who told them? The Government of Pakistan?

DUFF: Yes. So, there was an edict, not wholly impractical edict, and it was the local Massey folks in operation, which looked at local procurement around [maybe Millat Tractors Limited, Sheikhupura inaudible], and we went in with a credit, which was put through the tractor company, but was aimed at helping arrange their sub-suppliers. And that was a very interesting one because the environmental and social standards of the sub-suppliers was just awful.

And I can remember being quite shocked at an international organization being prepared to go in with what I found as a neophyte and, you know, a recent joiner, and really quite low standards. So anyway, we get something to improve it. But this was in the days before strict environmental conditionality, and I could see the need for environmental conditionality, you know, even at that point.

And then the third was a new proposal to make sports watches in India, and that was good because it involved a high element of skilled labor, and was unusual, but actually, extremely good because I got an early charge, early insight, into development impact because the company was employing a very high proportion of girls out of school who had virtually no other opportunities in the region; this was in South India. Also, quite suitable for handicapped people too.

And I remember going back there at the end of the project assessment when we had signed the loans and advanced monies, and joined the family there. The extended families of the employees came in, and the degree of celebration that the girls had a job and were employed in this kind of plant, was a joy. So, I never had uncertainties about that development impact after that, actually, [inaudible]. I was quite lucky in terms of early assignments.

ZIEGLER: You've cited some of the projects that you've worked on, but how would you compare and contrast the ease of doing business, or lack thereof, in the various South Asian countries that you've operated in?

DUFF: It was quite challenging in all. And I mean, what happened with me, I left South Asia for a new advisory activity, which I'll come back to, and then, after a few months there, returned to the region as manager and had Bangladesh and Sri Lanka, Pakistan, and Nepal, as areas of operations. And then in three of those, the IFC’s experience was really quite poor, so I mean, in Sri Lanka, at the time, I think there had never been a successful project in that in terms of expected outcomes and in terms of repayment.

ZIEGLER: Was this before the Civil War?

DUFF: It was before the Civil Was, yes, I mean, this is in the late-'80s. So, yes, it was related to this, which as I say, to have an investment or two in every member country. Bangladesh was very hard because private lenders were few, pay flows were substantial, and there was, honestly, a challenge in explaining to potential clients that they were expected to repay loans.

ZIEGLER: This is an alien concept perhaps?

DUFF: Well, yes, I can remember a few conversations where I said, well, in that case, we go somewhere else. I mean, there was an expectation of grant help rather than loan, you know? So, I'm glad I had the conversation early on.

ZIEGLER: Right.

DUFF: And Nepal was really quite challenging, although, actually, in the advisory group, we had had some involvement in helping with privatization, which we can talk about. So that left Pakistan, which was the main area of operations, and we had a number of investments there in agriculture. Agriculture value added, sort of, lots in common, and added value there, and some in infrastructure as well.

ZIEGLER: India, that would be, still, before the time of, what, 1991, I think, they started the real deregulation. So, you would have been before that time in India.

DUFF: Before that, yes. That's right. And at the time I returned as manager, India was outside my area, so another manager who was handling that. But, yes, I mean, that's right. I can remember we made, in the late-'80s, we did some investment in power and power transmission, which was before the real moves to liberalize.

We also made an early investment in software development, which was, again, the watch operation (Titan watches) I mentioned, was in Bangalore [India], just over the border in [inaudible] from Bangalore. And we made an early software investment into Bangalore –

ZIEGLER: Did that turn out successful?

DUFF: -- which failed.

ZIEGLER: Oh.

DUFF: It was in advance of its time, and Texas Instruments, and others, had aerials on the roof at that time where they were using the town for software development, but our investment just happened to be ahead of its time, which I --

ZIEGLER: Well, you know what they say about a pioneer, you recognize pioneers by the arrows in their back.

DUFF: You've got to have the time right. That's right.

ZIEGLER: Well, you played a significant role in the creation of IFC's advisory business and its infrastructure financing operation. Please describe the challenges and accomplishments involved in that.

DUFF: Yes. Let me start on advisory, which it came out of a successful operation advising on the restructuring of a company in Mexico. And there were a couple of people who championed the idea, quite a lot of resistance in IFC to moving away from the main drive of investment, quite a lot of people who thought it would be all kinds of reputational risks, there'd be conflict of interest between work as an advisor and work as a lender.

ZIEGLER: So was there any money put up front in this or this was strictly an advisory effort, right?

DUFF: Yes. And I don't think the answer is no. I mean, there was a modest budget set aside for it, but it was expected to be self-sustaining in terms of charging fees to outside clients and covering its own expenses.

ZIEGLER: A fee for service.

DUFF: That's right. That's right. But again, this was pretty much the first time that IFC had sought these kind of fees. So those were also contentious. And the operation began with about six of us. And it took some time to release me from Asia. It took a very long time, about nine months actually. And the day that I arrived in advisory, the champion of the venture, who was also the manager, informed us that he was leaving and going to Morgan Stanley, so that was a bit of a shocker.

ZIEGLER: Who was that?

DUFF: Peter C. Jones, who did go to Morgan Stanley. And that had some challenges internally because, of course, you know, the champion, or the senior guy, had gone, but the operation was quite well-timed in that the moves toward privatization were taking place, Washington Consensus, and so on.

ZIEGLER: But this was late-1980s.

DUFF: Actually, early-'90s, but it was same thing, and it was 1991 I think. But more important, there was an openness to at least having a look at it in a range of member countries as well. And we did some early work in the Philippines on the airline there, which was a major assignment, and Nepal, actually, too, where they had quite a serious look at that time. And then Eastern Europe was just beginning to reform, so we did the early work there on a range of countries, including Nepal's.

ZIEGLER: So did this effort prove to be reasonably successful?

DUFF: Yes. I mean the principle of charging fees worked and continued. The area of advice expanded very substantially and it had a major push, which, one could argue, was independent, but it was very much linked in terms of principles. In Russia, there was a need to have higher activity. It was quite challenging to make investments. It was decided to press advisory operations, quite strongly, as a way of helping the country without investing our own funds; to a large extent.

ZIEGLER: How can you even know? Did IFC make significant investments in Russia in the event, I mean, those things --

DUFF: No. I'm saying, it was an alternative route, so it was as another way through, at the beginning, to help Russia without having to put large monies down on the ground, but did quite a large -- it was a large effort, you know, in the early days. And that also in Eastern Europe. It's now grown worldwide and IFC now has well over a 1000 people involved in advisory work. So from that early decision, and I'm not sure it's all due to the formation of that group, but it was an openness to looking at advices and activity. It was really important.

ZIEGLER: In this case, the timing was correct.

DUFF: The timing was very good. That's right. That's right. And that group is in existence, still active, privatizing quite a lot of infrastructure around the world. And not overstepping the World Bank either, which is also one of the concerns. I can't think of a single issue over conflict of interest which was not resolvable in my time in --

ZIEGLER: Between the Bank and IFC.

DUFF: I'm saying, between the advisory activities and the investment activities in IFC.

ZIEGLER: Okay. Okay.

DUFF: And I don't think there's been much between the Bank either, so it's worked quite well and it's become a major plank of IFC's activities. So, yes, it worked quite well.

ZIEGLER: Probably get along better than the Bank and IMF do.

DUFF: Yes, maybe.

ZIEGLER: In 1996, you were appointed Director of the Infrastructure Department in IFC, how did that appointment come about?

DUFF: Well, I should probably head back slightly, this relates to the reorganization of the IFC in '92, which was a very important reorganization in that it was the first time that it was accepted that there was real advantage in having active specialization. The typical IFC expert, before that, had been able to work at a financial institution one day, and a textile factory the next, and so on. The advantage of more specialization became clear, I thought. It was really quite clear in the late-'80s.

But at that time, it was decided to form a number of industry groups, including one for infrastructure; oil and gas was another. And so, the new infrastructure group was setup. I joined that as manager, so I moved from South Asia into the new infrastructure activity. There were three of us managers. There were two quite well-established lines, one for power sector financing and the other for telecommunications. Each of those was formed into a division to focus on what was a growing pipeline.

And in my division, it was really the rest, so it was other sectors where there was not much happening, which had some challenges because we were expected to produce results quickly, but actually, it was the areas like water, sewage, other utilities, and transportation, where there had not been all that many financings in the market.

ZIEGLER: Well, following up on that --

DUFF: And that's what we focused on, yes.

ZIEGLER: -- I understand that, as director of the infrastructure department, you built that department up from a very small base and my question really is, were there institutional imperatives behind the build up or was this largely on your own initiative?

DUFF: No. I mean, the market was there at the beginning; really quite small. There were a number of clients, and potential clients, who were looking at becoming involved as privatization moved ahead. Very little financing available in the market, not much in the way of any examples or precedent, and we did some of the early financings in pretty much every subsector; around 15 of them in the end.

And that was, from the viewpoint of the institutional role. It was very high because we were, really, one of the very few sources available. We ended up, in the earlier period, having a market share of a 100 percent in emerging markets and, indeed, it was quite important to us to get other financiers into the market. And so that from the viewpoint of role for the institution, it was very high, and the shareholders were quite enthusiastic about it.

Although, at that time, the risks were not very clearly defined and experience was quite slight. And actually, interesting is, in fact, these were areas which had relied on private financing at the beginning, so one of the first financings we did was water in Buenos Aires in Argentina. Very challenging to assemble in the '90s, actually, the previous financing had been in the 1890s with [perhaps Baring Brothers (House of Baring) who did both railway and water plant debt issues inaudible] Bank, which actually traps the first time when they did the water plant in Buenos Aires, and then rail financing was another one where we were doing the first private financings; the first private financings in about 70 years.

ZIEGLER: Yes, the British financed the Argentine railways originally [inaudible – maybe Anglo-Argentine] Bank.

DUFF: Yes. I mean, these were privately financed, they had to be nationalized later on. We then came in and helped to privatize them later. You know, anyway, in our lifetimes, these were the first ones. So, you know, your question is a complicated one, but also one I had quite a lot of sympathy for because the drive of those in the team was very high because this was new ground; really interesting. We were setting precedents. Institutional appetite to do more was quite high, but we were working in areas where we were virtually blind, so we had to be, really, quite careful about what we were doing.

And the other thing I should mention is that, this is, you know, one of the things that it would be good to talk about in terms of innovation because the IFC had traditionally been very concerned to have a mortgage, or security on the assets of company concerned. They like to have access to the plant and equipment; the fixed assets. Normal IFC financing had had a mortgage over those hard assets. Infrastructure financing on a concession allowed for no fixed assets. The assets remained in the public domain.

So, we had to persuade those in IFC working on risk that it was appropriate to go without assets.

ZIEGLER: So this was breaking new ground in assets.

DUFF: Yes. Yes. I mean, every deal involved a lot of argument over how we could help mitigate the risk. One of the things we were doing was to create new forms of security which allowed us to have enough influence over the private company operating the concession. They would ensure we were repaid.

ZIEGLER: How did you do that --

DUFF: And that worked quite well.

ZIEGLER: -- for instance?

DUFF: By asserting rights that if things went wrong, we could come back to them in appropriate circumstances and they paid us. This was a matter of fierce negotiation that actually, in the case of Buenos Aires water, which went wrong, when Argentina had problems.

ZIEGLER: That's later in the decade.

DUFF: This is later in the decade, yes.

ZIEGLER: Yes.

DUFF: We managed to get out okay because of the agreements that we negotiated. Now, it was quite hard at the time to ensure that we had enough rights to be able to ensure we had a negotiating position at the table if things went wrong, but that was a very core part of the --

ZIEGLER: You got lucky on that one.

DUFF: -- work there.

ZIEGLER: From what I recall, Argentina really had their problems in the, like, just early-2000s --

DUFF: Yes.

ZIEGLER: -- and went seriously wrong. I was just reading about that. The currency board, they suddenly switched their currency.

DUFF: They had a constitutional requirement that the exchange rate would --

ZIEGLER: Yes.

DUFF: And that they --

ZIEGLER: And they did a switch on the local populace--

DUFF: They were not able to maintain it. Well, I mean, it was a switch, we can come to it later on, but I, again, what I'm talking about in terms of risks, I mean, it so happened that the Argentines were ahead of the game in terms of the sectors and subsectors that they were prepared to privatize. So, they weren't early into transportation and gas, and power to transmission. They did early road privatization, but they also did things like sell the Post Office, which is still exercising a number of industrial countries, not the least the U.S. and the UK.

So, it was very attractive for IFC to be highly active in that market, and we did lots. And if there was any mistake, we did too much in Argentina, but in effect, it was the laboratory where we were looking at new sectors, new ideas for privatization, and did a lot there, and I returned to that.

ZIEGLER: And you came up with some new ideas that could be applied elsewhere perhaps?

DUFF: We did indeed. I mean, so we learned some of the early experience, and frankly, I mean, the mistakes too --

ZIEGLER: You learn by doing.

DUFF: -- helped to educate us in Venezuela.

ZIEGLER: What effects did the financial crises of 1997 and 1998 have on the work of the infrastructure department; if any?

DUFF: A lot. In terms of the early areas of high activity, East Asia was one.

ZIEGLER: Now, that department would cover worldwide. It was not regional.

DUFF: This was a global agreement, yes. With exactly this idea that we would be able to use the knowledge that we gained in the leader countries, in others, and help to make other countries more confident about what their options were. And the Asian crisis had some severe effects in terms of overall demand, but we also had some existing transactions which were challenged.

One was the mass transit system in Bangkok in Thailand. And this was the first major urban transport project. It was an overhead railway through the city. There were plans for three systems which would be interlinked. It turned out that the one the IFC supported went ahead, and the other two failed to go ahead. Since there was a correlation between the number of rail stations in a system, and revenues, it collapsed the traffic figures.

And there was also a substantial devaluation. The operation had all its liabilities were foreign currency, or sorry, almost all, so it was hit, really, quite badly. And now you can't get a seat on the system and it's only standing room, so it's a great success now, but at the time, it was a major problem.

ZIEGLER: Have the other --

DUFF: One’s been built.

ZIEGLER: Oh, one additional one?

DUFF: One additional system has been built, yes. And the third, actually, still hasn't been built. But the traffic is, you know, excellent.

[End Tape 1, Side A]

[Begin Tape 1, Side B]

ZIEGLER: [tape begins in mid-sentence] -- period, this is, say, the late-'90s. Under the presidency of Mr. Wolfensohn [James], there occurred a merging of some IFC and World Bank departments. In retrospect, do you regard this as having been a success?

DUFF: Since it's lapsed to a degree, I think the answer is probably not. It was always very helpful in these areas to have close working relationships and -- well, let me give the example of rail, where the Bank was trying to persuade member countries in Latin America to privatize rail. There was no financing available. If IFC was prepared to come into these sectors, at least the Bank could say there was some money coming in.

Actually, what happened was that there was a very active and successful combination with the

Bank helping with the transaction design and persuasion that it was a sensible thing to do in Argentina, in Chile, Bolivia, in Central America, in Guatemala, Panama. IFC did financings in Argentina, Chile, Bolivia, Panama, and the practical working relationship, again, we avoided conflicts of interest. We worked really quite well together.

We actually got the President's Award for that in 1980, or something like that. Anyway, I'm not sure of the exact year now. So, before the discussion, actually, it so happened that Peter Woicke came in at about this time and we won that prize at about the same time that I was being urged to work more closely with the Bank. So, I mean, we had examples that, you know, we were working really quite closely.

Same was happening in water, where again, the working relationship was really quite strong; just because it made sense to work together. It was early days in terms of private involvement for the Bank. It was early days for IFC. We had the same interests. So, there was quite a lot of natural cooperation in a range of infrastructure sectors. Before the idea of merging in telecommunications, there had been the idea of co-locating, which meant that the team in the Bank working on the sector, would sit in the same area as the team from IFC without merging, but at least being able to talk with each other.

And interesting, the two managers of that came to me when I was director and said, really, there was no point. It was more sensible to move apart because it wasn't being either useful or constructive, and actually, new space available, which they would like to occupy without having their neighbors there.

ZIEGLER: Did you approve that request?

DUFF: I did. I did. And then, actually, the same manager came back as the champion of merging a few months later when Peter Woicke came in. So, I had some concerns about the reality of the quantum leap which would be achieved through the merger. It was overestimated.

When I came to manage the oil and gas activities, oil/gas mining, later on I thought, really, it was working quite constructively and there were a number of new operations and initiatives that came out of that, including the transparency initiative, which were really quite important, which I think might not have happened without the merger.

And in telecommunications, again, I mean, the operation was a constructive and useful one in its time, but they're very hard to work resource allocations in those groups because the approach to Argentina, the World Bank and IFC have very unlike systems. And there was a feeling by each side that the other side was overcharging on the budget, which is sad, because that's a kind of fruitless discussion, but that's how I worked.

So anyway, I mean, overall, it was helpful in its time, should it be forever? Probably not, and actually, as it happens, I mean, it seems it hasn't been for a long time because it's being --

ZIEGLER: So it's no longer --

DUFF: As far as I understand, it's no longer. It certainly isn't in operation the same way it was.

ZIEGLER: During FY2002, IFC underwent a major reorganization, how did this affect the work of your department?

DUFF: Well, that, if we're talking about the same one, I mean, this was a continuation of the '92 reorganization, which, as I say, it was to divide. In 1992, some activities were divided up and given over with the hope that staff would become more expert and certainly, more specialized. Some sectors were left out of that, including the financial sector and manufacturing, in general, which was a whole range of other businesses.

In 2002, it was decided to go the whole way and make everybody specialized. So, the organization was put into a matrix with regions on one side and so-called industries on the other, including every activity, with the hope that it would allow; A, more expertise; B, to have the lessons from one region transmitted more easily to other regions; and also, to be more productive.

One of the interesting things in IFC is that, the act of reorganization seems to increase productivity in that, thereafter, '92, there was a very substantial increase in output and efficiency, which people like to put down to as the product of higher specialization. I think it can also be the reorganization itself. I mean, it gives people new jobs; makes them think in new ways. But anyway, it had efficacious impact.

2002, it too, actually, that also helped in terms of productivity, but the outcomes were two new very large departments; one for the financial sector, the other for general manufacturing, so-called, which had several hundred employees in them, so large departments by IFC standards.

Impact on infrastructure, not very much because that department was continuing to focus on new countries in older subsectors and new subsectors, and others, and it had already specialized. So, it was a reaffirmation that it made sense to specialize, so from that point of view, nice, but no great impact in terms of its focus. I mean, that was also the time I left infrastructure and perhaps I should talk about that too, right?

I had been there for close to ten years and one of the interesting things, again, organization, is that rules and mores grew up over that period, and I was finding that people were saying to clients, and to me, that we can't do that because there's a rule against that, or you have to do it this way. This is how we do it. And I remember that those rules grew up at the beginning of the operation with a very small group of us, making choices which were very marginal at the time. I mean, we could easily have chosen to go the other way in terms of structuring or design.

So quite a lot of the decision points were highly tendentious, but these became locked into stone.

ZIEGLER: So this kind of evolved over time, in a sense, from --

DUFF: What I'm saying these --

ZIEGLER: -- somewhat informal --

DUFF: -- some of these were my rules at the beginning and I thought I had the right to change them, but actually, they had become established rules about how to do it. So, I began to find that rather frustrating that things, that I remembered, as I say, as being really highly tendentious at the beginning, actually became written in stone.

ZIEGLER: Were you able to do anything about that?

DUFF: Well, I was. I mean, I was able to say, this is nonsense, you know? I would then describe, you know, how it came about in the first place, and sometimes persuade people, but anyway, it became rather -- I found this speaking back to myself, you know, rather strange, so anyway, I thought, probably, my time was up when I began to get that a lot.

ZIEGLER: A good example of the value of institutional memory, which, in my own truly personal opinion, the Bank pays little heed to. I think institutional memory, already, has become -- well, given the contingent nature of the majority of the workforce here, institutional memory is out the window.

DUFF: You know, well I think the institutional rules need to be reexamined every now and then.

ZIEGLER: So, yes.

DUFF: They were often right for their time and place, but not --

ZIEGLER: The world changes.

DUFF: Yes. Maybe, not now.

ZIEGLER: What do you regard as the major accomplishments of the infrastructure department during your directorship?

DUFF: Well, I think quite a lot of it, it worked. So actually, I had just come back from Central America and happened to go to Panama, where the road from the airport was an IFC project, and again, highly suspect at the time. The railway across the country was an IFC project. The first major private port was an IFC project. The canal widening is now an IFC project.

Those are all working quite well. We could hardly drive on the toll road. You know, the railway is highly active still. It seems that the port's doing very well. So those have worked, it seems. Now, I may be over claiming that it had a major impact on the country, which has certainly prospered a lot since I was there.

You know, Thailand, where I was earlier in the year, the mass transit was a major problem project for IFC and I am sure we lost money on it overall in terms of time, effort, and so on. Is it good for Bangkok? It's fantastic for Bangkok. It's been a major boon. And there are now several hundred investments out there, which I think have, indeed, had a substantial effect on people's lives.

The other multinationals all moved into this space, and they're welcome. A lot of private financiers have also moved in. So, I think in the generality, it's been very good. The IFC was a leader and it was well-timed, but I think, again, IFC, being active, had a significant impact on making it the right time, because ministers were able to see that it was feasible to go on the private sector route and in most cases, it's worked quite well.

And actually, you know, when I look at what's happened in the UK compared with what's happened in the emerging markets, I think the experience in the emerging markets has been more favorable; the truth of it. So, you know, I think we have quite a lot to be pleased about.

In terms of individual transactions, I mean, there are a series, but I, again, I mean, we'll come on to it later. But the asset management company at IFC is now out trying to sell its record, the IFC's record, in infrastructure and the rates of return have been strong enough to bring outside investors in. So, you know, it's been proven to be, you know, a sound investment as well. So, for all that we had, you know, we maybe had about 50 problem projects probably out of this. It ends up being a high number of issues, but overall, it's worked out, you know?

ZIEGLER: Now, that's 50 out of, roughly?

DUFF: About 250, 300; something like that. So, you know, it's a challenging area. It required some brain power, you know, on each deal, but that was the fun of it too, and it's going strong.

ZIEGLER: You were appointed as a member of IFC's senior management group in 2003, how did that appointment come about?

DUFF: Well, it goes back to what I was saying about a growing irritation of having my words thrown back at me, so I kind of thought, I've had enough. It was also the time that we were looking at subnational as an area that was uncovered by the multilaterals, in general, this is local government lending --

ZIEGLER: So lending at the local government as opposed to the national government.

DUFF: Correct. Correct. And as we looked at this, but this was coming out of the infrastructure activities, coming out of water, and this was Camdessus financing panel on water, so there was a range of outside experts, including Peter Woicke, that I joined as his substitute sometimes.

ZIEGLER: When you say Camdessus, you mean the former managing director --

DUFF: Of the IMF, yes.

ZIEGLER: Okay.

DUFF: So a group of water NGOs and those interested in the sector, put together a panel of experts to have a look at ways to finance water. And one of the things that was obvious was that one of the major gaps was local government financing. And what had happened was that, over the 10 to 15 years when privatization became a reality, lots of local governments improved their act. You know, I mean, they actually began learning from private sector on operations and increased efficiency, maybe to stave off privatization, but frankly, just to make things work more effectively.

And it seems, certainly in sectors like water, but other utilities as well, that actually, local governments were quite well-equipped to make, really, quite sensible economic and financial choices if they were allowed to do it. One constraint was no money. Another constraint was that, often, central government wouldn't be interested in allowing them the freedom to make those choices.

The Bank stayed out of that in part because, it was focused on needs of central government, and again, if you work with the finance ministry, they would like to keep control over the funds flowing into the country. The private sector, also, are not interested in allowing local governments to become a competitor for funds they would like for privatization.

So anyway, between the Bank focusing on the center, IFC focusing on the private, and same thing in other multinationals, no one was giving a chance to local governments, or locally-owned enterprises. So, having a look at how to do that, and in theory, what happened in 2003, it was kind of late-2002, early-2003, I was going to be given a sabbatical, internally, to have a look at this and see how we might put together a group, which could do some financing.

And in practice, I was about a month into my sabbatical and I got asked to join another group. We carried on with a local government effort, did an early transaction in Mexico in sewerage, and then, about the same time, did a much more, well, it was a major financing for Johannesburg in South Africa, so this was going along at the same time as the municipal group, working alongside the Bank, again, certainly the idea was, to try to make it a joint effort, and we had a small committee, including World Bank VPs, IFC VPs, on the investment committee for this group.

I joined the management group as a Senior Director with a couple of others, so there was an expansion of IFC's management group. And that was the time we're doing quite a lot of strategic review, so it was interesting. But then, three or four months in, the leader of the financial institutions group left.

ZIEGLER: That was?

DUFF: Karl Voltaire, who left and I took over that group for a while as well. So I had no more time for thought. My sabbatical ended up with my having to run a department of about 200 people, well, maybe more, in the financial sector, and the municipal activities, and the management group. So, it didn't quite work out. So, that was my entry, anyway.

ZIEGLER: Well, going on with that, in your CV you indicate that you had had a strong interest in long-term strategy and innovation, how did these particular interests manifest themselves in your work?

DUFF: Well, I mean, the part I've always found within the institution, there is a lot of openness, practically, to new ideas, as long as they are reasonable and they are argued in the right way. So that what was happening with the municipal fund, which become the subnational department, was that, in effect, what we were arguing was that IFC should lend to the public sector. So, this was a breach of all theology. It was the opposite of what IFC had been setup to do. Clearly absurd in its construction, but nobody else was doing it. The Bank, for various reasons, was not well-equipped to do it, in particular, because the mandate comes from the center. And in most countries, the center is not too interested in giving more funding to its local subs, basically.

So it was not easy for the World Bank to do it in a substantial way, at least straight off, although, it was fine in joint venture, but it meant arguing with shareholders that, although, you know, IFC has been setup specifically to do the opposite, IFC should be doing some in local governments. Now, actually, if you read the World Bank history, the previous EVP [Executive Vice President] of IFC, Jannik Lindbaek, says in the history that the greatest IFC ever made was to lend to government enterprises, which was to Yugoslavia.

So that, again, I mean, some of the views of our predecessors also said this was a stupid thing to do. So, we thought about it --

ZIEGLER: Carefully.

DUFF: -- really, quite carefully, but what I was doing at this time, and was to spend a lot of time with the Board, and with individual members of the Board, to talk about the philosophical implications; is it right strategically? Is it right operationally? And it involved, you know -- I thought quite strongly it was the right thing to be doing. And indeed, I mean, I mentioned the canal in Panama, which, had that proposal come into IFC before all these discussions, it would have said no. It was outside the rule book, so we changed the rule book a bit, but in a thoughtful and appropriate way.

ZIEGLER: So that was adopted --

DUFF: So to me, yes, it was adopted. It was accepted. After lots of discussion, after lots of work, and then there was a question of where it should be within the World Bank Group, so you can imagine, lots of discussion about, you know, how it should be controlled, and who should do it, and so on. And, you know, there were some concerns within the Bank, we had a meeting, I forget how many VPs, but it would be about 12 or 15, so, you know, there were lots of internal discussions about whether it was right in principle, and then in practice, how to do it.

But establishing new freedoms for the organization, and I mean, the group, I think it's really important to adapt as needs to change. And now, you know, maybe I'm wrong. This is not a, you know, sea change of the world. I mean, I have to think it may be at some point. Having the Bank equipped to be able to do it is important. So that's what I'm saying. I mean, in terms of an interest and a strategy, in terms of innovation, I mean, I think that there are things which the group needs to be able to do and having some precedents set.

And, you know, again, I mean, we have shown that you can make these kind of loans without losing your shirt. And actually, it turned out, we even made an equity investment, a state-owned enterprise, which has also worked. These things are economically rational and financially rational. And I think it's appropriate for the group to be able to do it.

ZIEGLER: Was there concern that this might overlap with some Bank functions?

DUFF: Oh, sure, it does. No, no, it did. And again, I mean, it may be obnoxious for the center in a number of countries, so, you know, there were some countries who said, please don't try it with us. Because you were giving more rights and more freedoms to a mayor and that's not always popular. I mean, you know, if he's the right mayor, I think it's an appropriate thing to do. If, you know, he uses the money in a right way.

And, you know, the examples that we saw, the local choices which were made, were much more sensible than they would have been had they been forced from the center.

ZIEGLER: They know the area much better.

DUFF: They know area, yes. They know where to cut the trench. You know, it's okay. And, you know, I would argue more successful than having a private sector in. It's okay. In some cases, you know, the right cases. So that was an example. But the financial sector was also moving and I wasn't there very long. But one of the ideas that came up from staff when I was there was that IFC should be moving in a more organized way into trade finance. And that program also has grown to several thousand million a year.

So again, being open to ideas coming up from staff, I think, is also vital. This is how change comes.

ZIEGLER: The IFC roadmap FY11 to '13, sets forth IFC's five pillars, which have been in place since 2004 with some evolution.

- "Pillar 1, strengthen the focus on frontier markets, that is to say IDA [International Development Association] countries, fragile situations, and frontier regions in middle-income countries.
- Pillar 2, building and maintaining long-term client relationships with firms in developing countries using the full range of IFC's products and services, and assisting their cross-border growth.
- Pillar 3, addressing climate change and ensuring environmental and social sustainability activities.
- Pillar 4, addressing constraints to private sector growth in infrastructure health, education, and food supply chains."
- And, Pillar 5, developing local financial markets through institution building. The use of innovative financial products mobilization focusing on micro, small, and medium enterprises."

As a member of IFC's senior management group at the time, what role did you have in the formulation and adoption of these five pillars?

DUFF: Well, I was one of quite a large number of people who were working on this and debating it. The idea was to give some more order to what IFC was doing, to prune what we were doing. One of the issues with innovation and what I was talking about before is that, by its nature, the IFC's staff is a creative group --

ZIEGLER: Well, and entrepreneurial.

DUFF: It's fun to do new things and if you don't watch it as a manager, you can get swamped with new ideas. And you've got to have ways to prune. So actually, one of the other things we did alongside this was to have a so-called new products group, which I'm the chair, which was looking at new ideas as they came up, and trying to work out if the organization was able to handle them, and saying no, where they thought the organization couldn't.

And as well as putting order, being clear about what the long-term aims, long-term path, is, well, was and is, and trying to handle some of the torsions. I mean, one of the strains in IFC's strategy is that it's very important to focus on the smaller companies, smaller countries, least developed areas, and to show that the IFC's active in those areas, and that it's also vital to make enough money to be able to do that. And that can mean working with either larger companies, or lower-risk countries, or areas which appeal less to, maybe, the shareholders, but also critics.

And it's important to keep that in balance because risk shifts over time. It can mean that when things are harder one can get driven into doing more of the income-earning activities over others. Yet, it's important not to manage by knee-jerk. So, this was an attempt to provide a framework that would be clear to staff, be clear to stakeholders, practical to work within, and that was one of the areas of most debate because it was important to leave in some long-term freedoms.

And items like building and maintaining long-term client relationships can mean that one can work with large companies if it's important for the long-term relationship reasons. Yet again, also, you know, as in Pillar 1, 2, over some frontier, so it's saying it's okay to do –

ZIEGLER: Because of balance. It's a balanced approach.

DUFF: Yes. It's trying to bring order to discipline, but at the same time, leave reasonable freedoms for future operations. And actually, I mean, the fact that it's been maintained, I think is just fine.

ZIEGLER: And it's evolved too.

DUFF: It's evolved. It's been the five have remained, roughly, in the same areas. And, you know, frankly, one of the things that came up in the interim, which we'll be talking about later, but in the time when there were was no CEO [Chief Operating Officer], one of the things that really worried me was that we had this very large advisory activity, several hundred people involved, and it really was not very orderly. It was confusing. And I was trying to force some more higher orderliness into this area. And we, fortunately, came up with the idea of applying these five pillars to the advisory activities as well as the investment stream.

And it was very interesting because some people argued this was inappropriate because their advisory activity did not fit within the pillars as defined. We were then able to give the very easy answer, well, in that case, it's not strategic. If it's outside the strategy of IFC, you shouldn't be doing it. So, either try to fit it within one of the five or stop. It's good in terms of discipline and having a clear approach. So I think it's worked.

ZIEGLER: In 2005, you were appointed Vice President, Industries, what were the circumstances of that appointment?

DUFF: Well, this was a result of having a new EVP, CEO, but, I mean, what had --

ZIEGLER: This was whom?

DUFF: This is Lars Thunell who confirmed the appointment. What had happened was that the EVP, Peter Woicke, had left, Asad Yaqub had been the acting EVP during that period and Jim

Wolfensohn had left --

ZIEGLER: Wolfowitz [Paul].

DUFF: -- Paul Wolfowitz came in. There was a gap in terms of hiring a new EVP in the form of Lars. Asad was there for some period, Lars was then appointed, but he didn't come. There were quite large periods of interregnum and uncertainty, and actually, I was doing the operations job throughout Asad's period as EVP, and then when he left. So I was having to do this job for a fairly long period without the title. So actually, yes, from late-2003, early-2004, I was doing the operations job.

So, the appointment was the formalization of something that was --

ZIEGLER: Already in existence.

DUFF: -- happening already. Happening already.

ZIEGLER: Yes.

DUFF: Yes.

ZIEGLER: Okay. In your CV, you note that the job had two major components, building and implementing strategy and day-to-day running of IFC's headquarters operations. What were the major challenges that confronted you in these components and how did you proceed to address them? And I have to ask, bringing up IFC's headquarters operations, I mean, just internal management, I take it, that’s what that means.

DUFF: Well, no, it is, as I say, the reorganization, we instituted a matrix structure, which has continued, with the regions on one side of the matrix and the sectoral departments on the other. What happened was that there were two other VPs in operations, one of whom was doing some regions, the other, the remaining regions. I then had the sectoral and other departments. It so happened that they spent a lot of time outside Washington. I spent all my time inside Washington.

So, you know, it meant quite a lot. I mean, I was often chairing the Board, having a lot of the exchanges with the EDs, doing lots of the work in the Bank. And other, you know, Washington-based activities. So, you know, I was the main hand. I was the factory manager in Washington, basically.

ZIEGLER: How did you like chairing Board meetings? I don't get to ask that of too many people.

DUFF: I mean, I find it very interesting, actually, and, you know, it's the answer to one of your earlier questions, but these were interesting times because, you know, we had -- I mean, I only started after when Asad was chairing. And then chaired, I don't know how many, 40 times, something like that; quite a lot.

A time of significant change and of entry and departure of Paul Wolfowitz, the entry of Lars, a fair number of shifts in strategy, but also requiring, you know, the shareholder wants in preferences and instructions. And actually, I came out a very strong fan of multilateralism. I didn't realize before I was actually at the table, how helpful the EDs were. And, you know, I had gone up to hear quite a lot of critique about misguided questions, or, you know, focus on the wrong issue, or whatever else.

And there were, often times, where one country or another would be asking for more than they should. And the other directors do actually collect around you and protect you in a very nice way so you can see exactly what they're doing. They are giving support, you know, when you're against the rails, or the institution is against the rails, or, you know, maybe it’s heading towards the rails, there can often be some very helpful views or words from other members and just saying multilateralism is important here, and it's not right for one country or another to shout quite so loudly about some issue.

So, you know, it then means one has the nerve to answer back, which I did, you know, a few times. But having seen that there is an appetite for that in the group, so it did quite good. I mean, I liked the Board a lot, actually. And again, changing not always clear exactly about the agenda of a particular member, but, you know, you begin to understand it if you're there often enough. Anyway I --

[End Tape 1, Side B]

[Begin Tape 2, Side A]

DUFF: [tape begins in mid-sentence] -- reorganization, the focus in the regional operations, the opening of stronger and more numerous offices in the regions, and learning as well, and then higher efficiency, led to, really, quite rapid growth in IFC. And over this period, the demand for our investments, it was growing an average of 28 percent a year.

ZIEGLER: Oh, that's a lot.

DUFF: The demand for equity, which is an important chunk, and that's, you know, the area which is hardest in terms of judgment, and assessment, and choice, was going up by about 38 percent a year. And there was increased centralization going on, advisory activities growing, really, quite rapidly, so the organization was moving very rapidly. And I mean the main challenge was to try to make sure that the train stayed on tracks and we avoided, you know, any major errors, which, if you're going that speed, you know, is going to be hard.

ZIEGLER: Would you say you largely succeeded in doing that?

DUFF: Yes. I actually would, touching wood heavily, but, yes, I mean, I think for what, you know, in my line, you can actually tell by the actual results after you leave. You know, if they have to write off a large chunk of the portfolio, then you did badly, but actually, results have been quite good, even after I left, so that's all quite pleasing.

And then we had these -- you can imagine with an organization where the CEO leaves, there's no immediate replacement. You've got the president of the Bank Group leaving, a new one coming in, a new one leaving, a new one coming in, these are all reasons that staff can give slowing down, or uncertainty, or whatever, but actually, the organization kept growing throughout the period. So, I think, I mean, in terms of keeping our eye on the ball, it was okay.

ZIEGLER: How, if at all, did the distractions surrounding the resignation of World Bank Group president Paul D. Wolfowitz affect IFC's operations?

DUFF: Well, I think in terms of the overall, not too much. And that was, in part, that he put his focus, mainly, on the World Bank, so to an extent, we were operating with some independence. Board support was quite strong and shareholder support was quite strong. The results were, at that stage, quite good. And so, I mean quite in the English sense as being reasonably good.

ZIEGLER: My wife's British. I know all this stuff.

DUFF: Yes, yes. And while it was, you know, another shock, and we had had a series of shocks, so that it was another one, but not mortal. And the direction really didn't change all that much either after Jim Wolfensohn went off to –

ZIEGLER: Did Wolfensohn pay a lot of attention to the IFC? I meant to ask you that. I mean, it wasn't in part of the structured questions, but I was just curious whether Wolfensohn paid more attention than Wolfowitz did, say.

DUFF: Well, I'm probably not equipped to answer that. I wasn't senior enough when Wolfensohn was around, but no, I mean, he paid a great deal of attention if things were going wrong, so that was very clear, which is good. You know, that's fine. And reasonable independence when things were going right, so I think it was, you know, the right mix. And that's probably also true for Wolfowitz as well.

I mean, with Wolfowitz, we did try quite hard to explain the private sector aspects of the work because he was out of the public sector. His involvement in the private sector had been quite small. So, we did more explaining about what we were up to with him. But I mean, some of this work on the subnational area was during his time, so quite heavily involved.

ZIEGLER: What were the challenges to IFC engendered by the global economic crisis that began in mid to late-2007 and how did IFC address those challenges?

DUFF: Well, I mean, in terms of the crisis, it hit most seriously in 2008. And we had a meeting in the fall of 2007 when we did come to the view that the equities that we were holding were probably close to their top value, which was an astute choice actually, as it happened, so we were selling equities in advance of the hit. And again, I would just say that what happened with me was that, I had retired in January 2009, but actually, to make sure the succession was a smooth one, I dropped out of IFC operations full-time in the middle of 2008, stayed on the committees and so on, but I handed it over to others.

So, we had a strategic discussion in the fall of 2008 when things were falling apart really quite sharply and I would argue that at that kind of time, it's an appropriate time for IFC to be quite brave and to seek to be cyclical, and actually to do more equity investment than it would normally be doing. So, you know, that's always --

ZIEGLER: So not running high, but go out and --

DUFF: No, it's always very hard to do because you already have a large equity portfolio, and it's losing value, and you then have to argue, well, I should take more on. But actually, I would argue that IFC could have been more aggressive for that period, taken a more --

ZIEGLER: It could have?

DUFF: Yes, yes. I mean, the capital position is always debatable, but, you know, it's reasonably strong. The organization had been growing quite strongly beforehand. And again, one can maybe argue that that was a mistake and we should have been holding all the powder and slowing the investment. But actually, the position of the corporation for a long time, and indeed, up to about 2007, was that owned capital actually exceeded the total value of the investments.

Well, as the Italian goldsmiths found in the 15th century that the thing to do is to take the gold and lend it out? So, the whole aim of a banker is to lend more than you've got yourself. You use other people's money. IFC was not doing that. I mean, IFC was only using its own money to lend out, so you can argue, as a financial institution, it could have afforded to be doing more. All these things are debatable, but that was -- but I would argue it was under-lent, under-invested, so it had the capacity to grow when things are easier, but also continue to grow when things are harder.

And actually, the reaction was to slow down and be more careful, but also to increase the trade finance program that I mentioned earlier, and to put a lot of effort into trying to help continuation of trade in the high-risk countries, which is an important role again, but it's short-term lending. So quite a lot of IFC's focus has been on that; on short-term lending.

ZIEGLER: But IFC weathered the storm reasonably well?

DUFF: Oh, sure, in terms of financial results, yes. I mentioned about the aftermath of me. I mean, the loan and the equity portfolios have both been really quite strong. And I think, you know, if you look back, this was an unusual crisis for IFC. IFC has repeatedly been in crises where a part of the world has been hit, and there's contagion, and you worry about how many countries in a region will be hit. So it happened in the Asian crisis. It happened repeatedly in

Latin America where either Brazil, or Argentina, or somebody had problems. And then you worry about who will be next.

And if you're managing these things, you can cope with a couple of countries going bad at once. If it gets to be three or four, then you begin to have quite serious effects and you certainly can't manage if it's six or seven. And so, the expectation of one emerging market going, or another, is always on our minds. Actually, what happened with the '07/'08 crisis is really, emerging markets were reasonably robust and the problems were elsewhere. The problem was Europe, the U.S., or U.S. and now Europe.

And emerging market were really the strong suit, which is, you know, what I'm saying. I think maybe, in retrospect, you know, as I'm doing it, one would argue that, actually, emerging markets were a strong bet --

ZIEGLER: They did seem to weather the crisis better than --

DUFF: -- throughout it. Yes.

ZIEGLER: -- the more developed countries.

DUFF: But there was substantial writedowns. There was substantial fleeing of emerging markets by international investors. So that's why I'm saying, actually, it's quite a nice time to --

ZIEGLER: Buy.

DUFF: -- buy, yes.

ZIEGLER: You retired in 2009, but you were retained until mid-2010 to develop and implement a strategy for IFC to manage private equity for third parties. Please describe your activities in so doing. And I think this is something of a groundbreaking activity?

DUFF: Yes. It was quite fun. Well, as I mentioned, the assets, in general, were growing really quite fast in the mid-2000s and demand for equity was growing even more rapidly. Equity has been a very important source of income for IFC over the years and the astute investment and sale of equity has been a core part of IFC's achievements.

It was generally thought that IFC should hold on to all the equity it can get and as it's good, well, you need to keep it. And so, over the years, it's been common to bring other lenders in to IFC investments under the eLoan program, so sharing the debt has been long established that IFC has always held on to all the equity. It became clear that IFC couldn't cope with taking all the equity with these kind of growth rates and it was producing more than it could absorb.

It was also becoming clear that the cash, the liquidity, in the world was being highly concentrated into sovereign funds who were becoming, by far, the most important source of new investment funds. Very few of them have invested in emerging markets. They're kind of a paradox here that they are, for the most part, in emerging markets, but they actually wanted to keep all their money in OECD [Organization for Economic Cooperation and Development] countries, so a few of them had gone outside, often on the tail of IFC's own investments, but had not been active in emerging markets.

And at last, these were IFC shareholders, in effect. I mean, these sovereign funds and IFC are owned by the same finance ministry or central bank of member countries and we didn't know them very well. So, all of this came together and if IFC wanted to share its attractive equity investments, you know, these glorious jewels, who are the easiest people to share them with? Well, you know, if you argue that they're very precious and you really ought to be keeping them, but you can't quite do that, who's the next best group to go to if you're sharing? Well, your shareholders are a reasonable place to go, I think, in that case.

If you do that, though, you've got to make some compromises and if you want other people to invest equity alongside you in a structured regular way, I mean, one way is just to go at each new deal you have and walk around and say, would you like to come in? That's really not practical, even in the medium term, but it's easiest to use the market structure, which is a private equity fund.

If you do that, though, you need to be able to prove that it's got some independence and what investors are concerned about in a relationship is the fear that you will just pass on the investments you think are weaker. You'll try to stuff them with further rubbish, basically. So you need an independent operation to be able to show that you're not going to make that kind of perverse selection; that you're not going to cherry-pick, it's called.

That means having an operation which is separate, it really means having a subsidiary, so IFC has --

ZIEGLER: A legally separate subsidiary.

DUFF: A legally separate operation so you can identify exactly what the relationship is and you can put in rules, you can see if they're followed, it's transparent, and it's important for each party. We designed an arrangement whereby IFC would agree to share its significant new equity investments, all of them in a particular region or industry, with outside investors.

ZIEGLER: So not just selected ones, but the whole groups of --

DUFF: It would offer a constraint of size so that the smaller would get anything which is reasonable or large size would be offered. The independent subsidiary will then make a decision whether to take it or not. If they take it, then they will act on behalf of the outside investors. So, from the point of view of shareholders, this meant a number of departures, one being a new activity, another being increased involvement in equity, third, being to have a subsidiary which was outside the Board's control, and had to be stated, you know, they can review, but they don't have any decision-making freedom, which is reasonable.

I mean, the IFC Board should be able to make decisions about IFC's money, but I'm not sure they should be able to make decisions about third-party money. It's not their money, it's somebody else's money, so we can argue it's inappropriate.

ZIEGLER: How did the staff -- I mean, were certain IFC personnel --

DUFF: Well, this is, again, all part of the debate. The outcome is being that some IFC, who are on secondment, and some outsiders, but I mean, the staff rules are different. The term is different.

ZIEGLER: So it's not even under the umbrella --

DUFF: That's right. They don't get G-4 Visas, they don't have immunities, and so on.

ZIEGLER: No, that's --

DUFF: It's independent. It needs to be independent; needs to be separate. And one of the other issues is that investors really like to know the staff that the investment management company is incentivized in the right way, so they all want income sharing, actually, they don't have it in an asset management company, but again, it's one of the questions.

And so we were doing, in my last months in IFC, when I was on the payroll, we went to the Board, actually, three times on this and had lots, and lots, and lots, and lots of meetings to explain exactly what it would mean, what freedoms were required, what was the logic, and the logic, at base, is to mobilize new money into emerging markets; more money which would mobilize, you know, otherwise it would have gone to Europe, or Japan, or the U.S., or whatever, and started to get authorization.

And then the next job was actually to try and assemble it. And assembling meant that we had to raise, actually, $800 million in the market from outside investors. And so, we were going out --

and again, you know, this is a small group. This was, in effect, two or three of us, going and seeing a number of sovereign funds who, before, were inappropriate. The group actually grew a little bit and so we included pension funds at a national level.

And we designed the first fund was expected to focus on Africa, we decided that there probably wasn't enough generation of deals to be able to cope with Africa alone at the scale we needed, so we included Latin America, and delved into the market with an offering of IFC's new African/Latin-American business on the basis of IFC's historic record, and brought in a number of outside investors.

ZIEGLER: Has this been a successful initiative as far as you can tell?

DUFF: Yes. You know, I mean, in terms of size, it's got close to $4 billion under management. The investors in the Africa/Latin-America fund, they're very pleasing, actually. We've got a European fund, two funds from the Middle East, one from Central Asia, one from East Asia, only one of those had invested in emerging markets private equity before, so, yes, it's real that they are changing strategy.

The European fund was actually being advised. Its advisers were saying you shouldn't go into emerging markets. So, yes, we were helping to counter other advice they were getting. So, yes, it's been great from the mobilization point of view. It's been great. And, you know, we have to see how it goes in the future, but it's there. It's established. It's working. It's got staff. It's out raising new funds.

ZIEGLER: We're at the point we're going to begin to sum up your career in more general terms. Based on your own experiences, how would you characterize IFC's contribution to the overall mission of the World Bank Group, which I take to mean, largely, although this has varied over time, of course, but reducing poverty?

DUFF: Yes. I go back to what I was saying before about Panama. I mean, I have been lucky that I worked in infrastructure, which is a particularly easy sector to link into impacts on people's lives, but just being able to go back and see some of the projects, which were very questionable at the beginning, and to see the prosperity which is gone up around them, obviously, not only because of those projects, but there's a link.

ZIEGLER: It could be a catalytic --

DUFF: Yes, absolutely. And I think one can, you know, see the roads have a lot of factories around them. And there are jobs where there's a new port of supply, you know, you can see impacts on housing; impacts on people. So in IFC, clearly, there's been a focus on private activities. And the infrastructure, that's meant privatization and has it been problem free, has it always been right? No. No to both, but overall, the impact's been very good.

And I think in the success of a number of the companies that I knew when they were quite small at the beginning of my career and they're really quite successful now. It's kind of obvious. So, yes, I mean, I think in terms of jobs, in terms of improvements in human conditions. In IFC, clearly, there's been stronger results, but in stronger countries, and maybe that's a happy thing too, though it hasn't been even, but absolutely had its impact. Yes.

ZIEGLER: Please compare and contrast the four IFC executive vice presidents; Sir William Ryrie, Jannik Lindbaek, Peter Woicke, and Lars Thunell, under whom you served.

DUFF: It's, you know, extremely difficult.

ZIEGLER: No, these are personal preferences.

DUFF: No, no, I understand. I understand, but world events had a great impact on IFC as well as the EVPs. I will argue that external events probably had much more impact and one shouldn't confuse individual personalities with what happened, but, as I've suggested, I quite like change. I like new products; new directions. Bill Ryrie introduced the first of the major reorganizations that we talked about, which was a move to specialize. I thought that was vital when I first joined and I thought it was more vital as time went on.

And I had found the sectors in my early years. I found this switch between sectors interesting in one way, but slightly bewildering, and knew that I wasn't operating at effectiveness if I was working in areas where I had never worked before. You know, it's, kind of, life as a gentleman amateur. It's fun, but it lacks --

ZIEGLER: But it was very British.

DUFF: -- some focus. Yes, well, that changed anyway. So, it changed under the British. I, as a British, I like the change. I thought the move into more specialization was really good and, indeed, it was at the forefront of the infrastructure group, which was one of the most focused, and because it was a new area, it was even, you know, more sensible to do it.

Under Jannik, we were still benefitting from these gains from reorganization. In effect, there was a slowing of reform, partly because we had been through quite a lot already. This was also a period when there was very fierce external criticism and lots of the banks were saying that not only was IFC unnecessary, it was crowding them out, and we were held back at that time. I would argue, it was a mistake and we should have been much more aggressive in terms of external posture.

I didn't agree with that at the time and I don't agree with it now. I think, you know, the banks, by the way, are only too happy to have IFC around now, in particular, when IFC is lending to them. So, it was a time when the banks were particularly outrageous and I think that, you know, history has proved them to be overblown. That was kind of sad.

Peter Woicke, again, was very interested in change. He went for more reorganization then, I think, people liked at the time. Yes, but I think it set the environment for the success after he left too, actually. Part of that gain was from the energy he brought.

And Lars, I mean, it's early to tell. He's been spending a lot of effort on decentralization, which, I guess, is extremely important. Judging the right pace for that --

ZIEGLER: Now, IFC decentralized rather like the Bank did under Wolfensohn, correct?

DUFF: Yes. I mean, there are now 100 offices, or more, around the world. You know, one can argue, that's too many, which is why I'm saying, I think history, you know, has to see if that was the right timing and is it all justified. But again, I mean, the world was changing between each of these periods too, but I kind of like the ones who shock the box, or whatever.

ZIEGLER: How would you characterize the relationships as you saw them between the various IFC executive vice presidents and the presidents of the World Bank? Now, I've gotten the impression from what you've said so far that, the presidents pretty much let the EVPs get on with it unless something was amiss in their view. Is that pretty much the way it worked?

DUFF: I think the pendulum has swung since the early history of IFC, that with some EVPs asserting more independence and then others, being there in the period when either the Bank, or the Group, or some other stakeholder, is trying to bring them back under the mantle. And one can argue that, by the way, with the four EVPs we talked about. Under Ryrie, there was a move for more independence. Under Jannik Lindbaek, it reversed the bid. Under Peter, it was kind of mixed. It was merging at the beginning, more independence towards the end.

And I always found that in terms of my own dealings, which is really the only way I can judge it –

ZIEGLER: Right.

DUFF: -- that when cooperation was useful to both sides, it happened very easily. So, you know, what I mentioned on rail was, kind of, it was happy, but very productive as well. You know, the relationships were easy, but that was partly because the joint relationship was so productive and it had impacts for both, and more important, impacts on member countries that you could see with your own eyes, you know, so it was kind of easy.

Where there is a clash, it can be quite troubling, but I think one of the main divides, I think, is that the IFC is quite worried about its existing portfolio and if there's a deterioration in a relationship with a member country, what can happen is that IFC's assets go bad, and IFC is not repaid, and it's real bad news, to be cynical and gloss a bit, but I found that, in some countries who are considered stars in the Bank, they get lots of money.

There's a change of government, new government says, everything the previous government was doing was bad. The IFC reaction would be to slow down new money because you've hit a problem. In the Bank, actually, that can be a reason to give yet more because it's a new government, and a new opportunity, and a new attitude. If you get to see that serially, one can think, actually, what the country is doing, very effectively, is to arbitrage the Bank because you introduce one program which appeals, you throw that away, say it's all bad, the Bank either writes off or has to wait.

You start a new program which is attractive, which fits what the Bank wants, you can have three, four programs over time, which maximize availability of funds from the Bank and other multilaterals, but you don't automatically get adequate performance on old debt outstanding. So I found that quite frustrating. That's where most of my arguments have been, that you don't ever look at the history.

I mean, character is one of the, well, if you look at the simplistic rules of lending, you look at capacity, and capital, and character, they're all important in terms of whether your client pays or not, that's, quite often, this character gets less play, I think, in public sector lending than it might. So, you know, I mean, I'm saying a country is responsible for its debts, whatever may be happening on the political level.

ZIEGLER: Argentina wouldn't necessarily agree with that; historically I mean.

DUFF: Well, I mean, Argentina is a very good case. I was hearing the other day that Argentina has got quite low external debt and it represents an opportunity for new lending. Now, Argentina has quite low external debt if you accept that they can just write off half of it and not pay it. I mean, what Argentina did was to say, no, we don't owe you anymore, you know, forget it.

Argentina, then, has low external debt and so then you can power more money in. I think it's probably illogical. I mean, someone in IFC was saying this, by the way, but anyway, I did scream. So, yes, I mean, it's exactly that, that you need to look back a bit and see how they were behaving. So anyway, I'm not sure I'm saying that clearly.

ZIEGLER: Who were some of the other notable personalities you encountered during your IFC career? Anybody that stands out in your memory? I'm sure there are a number of people.

DUFF: Yes. I mean, actually, a few clients do. In fact, I mean, I think there have been a number who've been quite brave or astute. I probably shouldn't name, but anyway, it's been mainly on the client side I think.

ZIEGLER: How would you compare the organizational culture of IFC with that of the Bank? Now, you've worked in IFC, but you certainly had interaction with Bank staff.

DUFF: Oh, yes, lots. Lots. And, in the end, I like both. I mean, I think the normal criticism, you know, in IFC is that the meetings are too big in the Bank, and it's over-laborious. In infrastructure, I kind of thought it was the opposite. I mean, to me, there is, you know, at root, some of the culture comes from the organizational purpose and one of the purposes, if you're making public sector loans with public sector money is that one of the things you don't want to do is to make a sloppy mistake.

So it's very important that you think of every possible facet, and every possible factor, and you don't forget something that may come to hit you or harm you later on. And that, by its nature means, you've got to have 40 people in the room because one of them may actually think of something that, you know, you should have thought of, but you didn't.

IFC is kind of simpler in trying to judge if the client is going to be able to handle the challenges that he or she faces, with some thought about impacts and, you know, in particular, environmental, social, whatever, but you can ultimately blame the client. It's kind of sad if you forget something, but it isn't your fault as it would be for public sector funding.

But, yes, I mean, in infrastructure, as I mentioned, we had no external guide, we had no great knowledge. A lot of the decisions made from a collegiate discussion among a group, so I really thought it was helpful and valuable to go broad, so I was going as broad. You know, we used to have meetings with 30 people because, again, and ask everybody in the room what they thought because somebody might come up with something that you hadn't thought of, so I quite like that.

And, you know, the impact of shareholders isn't quite the same and I think, maybe, IFC gets a bit more leeway too.

[End Tape 2, Side A]

[Begin Tape 2, Side B]

ZIEGLER: Now, something that you've talked about now, but maybe just would like to sum up as the notable internal trends of the IFC as they evolved during the course of your career.

DUFF: Yes. I think adjusting to market in a swifter way has been the most important one. I think the organization is now quite sensitive to market shifts. There was a heavy emphasis on project lending when I joined, which has been done quite well, but it was limiting. Advisory activities, again, have made it easier to operate on the investment side.

In terms of size, there's been very substantial growth. For a long period, that was a concern that there was some ceiling on IFC's activities in terms of the annual investment program, which is the new investments IFC was producing each year. There was a long period, which lasted throughout the second half of the '90s and early-2000s, when the program was not going above $3 billion a year.

I had quite a lot of concern whether this wasn't a real and harmful ceiling. Well actually, you know, IFC blew through that and it's now going about four or five times that level. And I think it was, in part, the decision-making requirements of machinery. I mean, there is still an oddity in the authorities of the organization because each investment is reviewed by the Board, so you have a very odd situation that, while I was a manager going before the Board every week, I could very easily have argued that I made absolutely no decisions.

The Board were responsible for everything, so if there was any reason that anybody should be jailed, or anybody doing anything improper, since I hadn't made any decisions whatsoever during that whole period of my stay at IFC, it should be the Board who go into the slammer for it, which is entirely false, because as I'm saying, actually, the freedoms to make choices were, I think, larger than they would be in a private sector organization.

But that's an area where there's been some evolution, but not enough, and I think it is a limiting factor. It's actually inappropriately structured that that's how things should be done.

ZIEGLER: I'm not quite sure what you mean by inappropriately structured, the Board makes so many --

DUFF: That the approval of every investment is, in theory, at Board level.

ZIEGLER: Ah, okay. Okay, that’s a criticism in the Bank too.

DUFF: I mean, it would be much better if the Board weren't overseeing management and recognizing, actually --

ZIEGLER: More like a real Board does it in the private sector.

DUFF: Yes. Yes, but I mean, in terms of accountability, it's very hard to hold management responsible for anything with a straight face because, actually, according to the rules, they don't make any choices, you know, but actually, they do. So that's a weakness which hasn't changed very much over time. There's been streamlining. There's less formal review, but actually, I mean, it goes all the way down the organization.

So, I mean, actually, when I was looking at the IFC's new investments, although some of the authority was devolved to pebbles underneath me, which is fine and right, I used to take a look, notwithstanding, and the Board can take a look, notwithstanding, as they see a paper on absolutely everything. So, they do get reporting on every single deal IFC does, which is probably an error. There's, you know, despite the fact that the organization is, in terms of throughput, it's about 15 times larger than it was when I joined. The authorizing environment hasn't shifted.

So, you know, you then get strain on the authorizing environment; not surprising. And actually, you know, one of the things that we were finding, I mean, it's one of the very extraordinary things throughout the organization, is that the time of the Board is allocated between the members of the World Bank Group according to how many words they read, so that it is one of the measures is the number of words in each of the Board reports that are presented.

And actually, when IFC is doing more projects and putting through more reports, the share of the expense of the Board became much more heavily loaded on IFC, so it's a real measure of this in terms of proportionate expense from each organization. So, I mean, in terms that, overall, the world has changed a lot. IFC was really quite fortunate to have the mandate of investing in emerging markets, because if you look at areas where one might have invested over the past 20 years, emerging markets turns out to have been the wisest place to be.

Is it brains or is it mandate that's produced these excellent results? Well, I hope it's both, but it's been the right place to be in terms of crowding in, which is then the main role of the organization. I would argue, in infrastructure, there's been quite a thought we've been quite good. I hope it'll be the same with the asset management activities, where again, if it succeeds, the results will be good and the asset management company will be able to crowd more people in. I think the same is true in the financial sector.

And in terms of other investors seeing IFC as an example of successful investment in emerging markets, it's been a high contribution.

ZIEGLER: What were the most important lessons learned from both a personal and institutional point of view during your career at IFC? And this sort of overlaps with some of the other things you said, but, sort of, in summary.

DUFF: Well, the most pleasing one, I think, is that, mostly, it's worked. So, the choices that we made in the early days of some of the sectors seem to have been reasonably astute. And in terms of outcomes, they've generally been really quite good. And that wasn't, at all, an automatic, you know? I mean, it's a pleasing surprise for me rather than, you know, a complacent expectation. There was never much complacency. It was always quite uncertain.

And I think the other lesson for me, I mean, I think, maybe two, which I've mentioned already, but I think the flexibility of the organizations is very great and I think to get ideas accepted in the organizations is easier than it would be in many private sector organizations where, actually, the blocks are more immediate and often more severe. So, there is a readiness to experiment here, which is very important and it should never be lost, but it's been quite substantial; I think.

And as I said earlier, the value of multinationalism, I kind of knew it was there, but I appreciated it more and more over time.

ZIEGLER: Right at home for you, so to speak.

DUFF: Yes. It's always been there -- well, maybe it's also grown as well as other pressures have been created, but I think there are quite a few international issues, or conflicts, or debates, which have been sorted out in these walls and that's very important. And, you know, not least, I found it a real challenge to work with 180 nationalities and, you know, I make jokes, I have it some of those are quite dangerous in this kind of environment, but there's a plus to that too. You often get reactions that you don't expect and when you think about them, it can send you off on some other line that you wouldn't have gone on if you didn't get --

ZIEGLER: Successful line, right?

DUFF: -- the other 100 -- yes, sure, yes. Yes. So actually, if one keeps one's ears open, you know, it's really quite helpful.

ZIEGLER: What did you like most about your career in IFC and what did you like least?

DUFF: Well, I think –

ZIEGLER: You pretty much touched on –

DUFF: Yes. I mean, going back to what I said about working at the Bank, you're doing the same thing to an extent, but the freedom to operate; the freedom to take risks. One of the other surprises, and maybe it's a lesson but, how quickly something that one feared might happen, happens. So, it's always been quite remarkable how quickly one gets hit on the nose, you know, if you ask it.

So that I like that. I like the immediacy. It's been at the front end of the workings in the mind and it's been as I have always felt the ones at the front end, which is very unusual and I think, again, I mean, you don't see that in other careers; impacts occurring, you know, whether good or bad, you can see them, and see them quite quickly.

ZIEGLER: And what you liked least?

DUFF: It's a facet of the attraction too, that it's very easy to get completely absorbed by the job and it's a never-ending sinkhole in terms of efforts. So, if you get really interested in what you're doing, I mean, you can find you don't do anything else, which again, you know, is the other aspect of impact. And so, towards the end, you know, I was working very, very, very hard and, you know, afterwards, one can see how very hard one was working.

ZIEGLER: I tell my children, life is tradeoffs.

DUFF: Sure. No, no, sure. That means it's good, but, you know, it's also over personal judgment.

ZIEGLER: What do you consider has been your greatest success?

DUFF: I think some shifts in the core organization strategy, you know, whether they are for right or wrong, we'll see, but I admit, it's good to have an impact on where the organization is going.

ZIEGLER: To have an impact at a high level in the organization.

DUFF: Yes. Yes. But I mean, high level ends up with impacts on the ground, but I think in terms of some new activities; in terms of some new freedoms.

ZIEGLER: And what would you like to have done better?

DUFF: I think the succession is very important and I think one impacts that less, maybe, than one can [inaudible] the organization. Again, actually, maybe it's a success too, but it goes back. I think probably the most useful thing that I've done is in terms of imparting the culture and attempting to get people focused on deciding things in the right way, and for the right reasons, and doing it in a rational way, and looking at facts, and deciding from those, and never ever deciding anything as you think somebody wants you to.

So I mean, again, one of the nice things in the organization is if you're managing an operation and you do it in an honest rational way, and you listen to ideas, maybe, is that people crowd to you so that the ease of running an operation, I mean, people have the freedom, some freedom, to select where they go in these organizations and they've got a collection of very bright people.

If you can get in a position where people want to work with you, it's fantastic because, you know, you're then training them. And actually, I found that a significant number of the people who are in more senior positions now, you know, had their apprenticeship in my group. So that's probably also an achievement. And maybe that's also the area of the whole, you know, that maybe with more thought and more focus on that as one went along, that's something I realized afterwards, where I wasn't realizing --

ZIEGLER: Right.

DUFF: -- at the time, but the profound passing of culture, I think, is very important and probably needs more effort than I'm willing to do --

ZIEGLER: And not just with you --

DUFF: -- but it's the --

ZIEGLER: -- I think in the institution generally.

DUFF: Yes. No, I mean, but it's actually knowing the impact that one's having at the time is probably, you know, rather helpful to know. I find people quoting back things I've said, which, you know, I mean, I have no idea why on Earth I was saying that. Anyway, but there were things that were quite important at the time I didn't even know.

ZIEGLER: Is there anything that we haven't covered that you would like to discuss?

DUFF: Not at the moment, no. You've been very exhaustive. I think it's excellent.

ZIEGLER: Oh, well, thank you. I don't often get much feedback. So well, thank you, Declan, for participating in the World Bank Group Oral History Program.

DUFF: Thank you.

[End of Interview]