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Transcript of interview with

Hugh Ripman

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Interview with Hugh Ripman

By Robert Oliver

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Tape #1, Interview 1

Ripman: My name is Hugh B. Ripman, and I came to the Bank in 1946. My previous experience had been employment from 1928 to 1941 with private banking with Baring Brothers in London. I had also studied for four years at the London School of Economics and was trained in accounting and various banking techniques.

During the war I worked for the British government on what was called the Inspectorate of Establishments, in which position I was employed in effect as an efficiency expert looking at all kinds of different military organizations with the view to saving manpower. For nine months prior to the end of the war, I was engaged with representatives of other government departments in planning the economic control of the enemy countries, and after the end of the war I joined the Control Commission for Germany and Austria with headquarters in London, where I was, among other things, particularly responsible for approving requests for imports into the British zone of occupation. In that capacity I came out to Washington to negotiate for supplies of food for the British zone at the beginning of 1945, and later I joined the British Embassy here for a year working on economic subjects and in those days in particular on various subjects concerned with the activities and policies of UNRRA.

At the end of that year I refused a permanent appointment in the British Foreign Service and joined the Bank, being taken on to be responsible for the advance work of end-use supervision under Mr. Aldewereld, who was at that time the assistant to the treasurer.

This work of end-use supervision owes its origin to the clause in the Bank's Articles of Agreement 5(b), which reads as follows: "The Bank shall make arrangements to assure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other noneconomic influences or considerations."

This was included in the Bank's Articles because of the experience of UNRRA and other agencies in which aid of various kinds had been provided to countries but not put into proper use.

When I joined the Bank, for several months we had the opportunity of considering the various problems that might come up in implementing this article of agreement and we considered various ways in which we might carry this out.

Q: Would you say who you mean by "we"? Was it a small team...?

Ripman: It was the treasurer's office at that time who were responsible. In those early days I was largely discussing this with Mr. Aldewereld, and I soon recruited to my staff one or two

of my colleagues at the British Embassy—for instance, Mr. Norman Jones and Mr. Bill Gealot.

We considered then two possible ways of carrying out this responsibility. One would be for us to station a man permanently from our own staff at the site of the various projects we financed to act as our ears and eyes at that point and to report back to us what was going on. We rejected this plan of procedure because we realized, partly from the experience of the various war departments during the war, that in this way we should unintentionally but inevitably be drawn into the management of the projects, which would happen in this way: When a borrower was in doubt whether to take one course or the other, he would naturally wish to take the course which the Bank would approve. In those circumstances, if he was in any real doubt, he would of course try and get the approval of our man on the spot, and so our representative would be bound in effect to take management decisions. We wished to avoid this because we were a bank, and the responsibility for the management of the project which we financed should rest squarely on the borrower.

As a possible alternative, we considered the idea that we should rely more or less entirely on the provision of written reports from our borrowers. Again, we rejected this idea because first of all we couldn't at that time know whether we would be able to trust what the borrowers sent in, because those who are directly concerned in the carrying out of a project frequently are overoptimistic about their capacity to overcome difficulties

and delays. That was really the main reason why we rejected that course.

And so we finally settled on a combination of these two techniques, under which we would get reports of different kinds at varying intervals from our borrowers but would ourselves pay them visits from time to time in order to check up on the accuracy of the reports and in order to have the opportunity to sit down with them and discuss various future or present problems with which they were faced.

Now, of course, our first loans, the reconstruction loans for Europe, were not project loans; and so we were faced here with a special problem of supervision. In effect, these loans were for restocking European business. I think under the Netherlands loan we financed upwards of 100,000 different transactions. For this purpose all we could do in effect was to trace the delivery of the goods through to their final destination, and accordingly a mechanism of control was set up which would enable us to do this. And for that purpose we had small supervision offices in Paris and the Hague and Copenhagen.

I should say at this point that our supervision, of course, began with the control of the actual spending of the money. This was the responsibility of the disbursements section, which also worked in the treasurer's office and was also under the guidance of Mr. Aldewereld. That was run by my colleague, Mr. Street, Gordon Street. These offices in Europe were kept open as long as was necessary for the reconstruction loans, and although there

were one or two occasions on which we were able to establish that what we had financed was used for noneconomic purposes (I remember, for instance, shipments of petroleum products that were turned over to military use in France; we, of course, requested the French government to repay the costs of those shipments), we were able on the whole to trace all these different thousands of items financed under those loans to the ultimate end user.

Q: How did you ever trace the oil shipments which went into the military?

Ripman: I can't remember the details of that, but we found that they were delivered, I think, to the Navy, a navy yard or something like that.

Q: You mean delivered directly by the exporting vessel?

Ripman: By the country of the loan. But, on the whole, we were able fairly quickly to establish that all the thousands of shipments financed under those reconstruction loans reached a destination which was obviously compatible with the purposes for which the loans had been given.

Of course, when we got into the project type of loan, we were faced with a different problem. It was obvious here that it was not enough to check that our money had been spent on the right kind of equipment. That would be no use if the buildings

were not ready to receive this equipment when it arrived in the importing country. So for project loans we had to look at all sides of the project and to be kept informed about progress on all aspects of the project, whether they were financed with our money or not. We had to keep track of the placing of orders, of any delay in manufacture or delivery of equipment, and the progress of the civil works, and the installation of equipment, in training of the men who were going to use that equipment, and at the same time to keep ourselves informed of the financial aspects of all these different things.

We soon discovered that in order to obtain this information, we were sometimes up against difficulties. Some of our borrowers enjoyed experience in relatively sophisticated management and an adequate equipment of internal controls, so that their management could be supplied promptly with information on all sides of the business, which was essential to the formation of sound management decisions. With these borrowers we had no difficulty, because our interest in the projects was in effect exactly the same as the interests of management, and we needed to know as much but not more than an efficient management would need to know in order to function properly. But, of course, a borrower with an organization and management of this sort was the exception rather than the rule. And in most cases when we submitted our requirements for reports, the borrowers threw their hands up and said, "You don't really expect all this. We're building a dam (or a factory or something like that) and we

haven't the time for all this paperwork." It was very difficult to persuade some of them to provide us with the information we wanted. It took firmness and patience and tact and sometimes it was a year before we got the reports written properly.

Q: Can you illustrate this, and would you also add something about whether the Bank itself helped institute accounting systems when necessary?

Ripman: No, we didn't help institute accounting systems. There were some projects in which we insisted on employing accountants to help them, either to set up a new accounting system or to improve their various systems of internal control. Even today, of course, the techniques of budgetary control are very little known outside Europe and America, and it is frequently necessary to call in a firm of accountants as consultants to set such controls up. What we found in practice was that although there was much resistance at first to providing us with these reports, at a later date when our borrowers were in a position to provide these reports promptly and we suggested, for instance, that it would be sufficient if they sent them at, let's say, six months intervals rather than three month or one month, they said, "For goodness sake, don't suggest such a thing. Now that we have them running properly, we simply can't think how we carried on before without them." In this way it was a kind of technical assistance in management to our borrowers which we hadn't really foreseen,



but which in many cases played as important a part really as the actual financing of the project.

Q: Do you recall the first loan in which this became a matter of importance? Was it the Chilean loan perhaps?

Ripman: Yes, I think it first became clear in the Chilean loan. You see, it very soon became clear to us that to be successful in this task of end-use supervision, everything depended on our establishing and maintaining the right working relationships with the borrower, in which the borrower understood that our interest was not like any normal bank—simply the interest of a creditor whose prime interest is in getting this loan repaid—but that on the contrary our interest was in the project, its successful completion and its successful contribution to the economy. And the fact that, as I put it sometimes, the best security for a loan is not a mortgage on the fixed assets of the business, but a successful business itself.

We, of course, were dealing with people who met us for the first time, and we were dealing with people who had never come across a lending institution with this attitude before; so that maybe when we first expressed this interest, they didn't really believe us, because they didn't think any bank could ever really be interested in anything except getting its money back. But with patience and with persistence and in those days sometimes with real help from the Bank in very practical ways, they understood finally that this was so, because we were able in

those early days to demonstrate this. When for a great many types of equipment the only possible source was the United States, and when for certain types of equipment it was still necessary to get certain government permissions to export, we were able in a number of cases to assist customers in buying very necessary equipment which they were having difficulty in getting necessary permits from the American government; so that we could in this way show that we had a real interest in the success of the project.

Q: Did you ever feel that you created any ill will? I mean the Bank on the whole caused ill will because of its insistence upon this? Particularly in Latin America I'm curious about.

Ripman: Well, if there was any ill will in that sense it was only at the beginning before they understood why we needed this information, and before they understood that they needed it themselves. Once they saw the value of this information, which they'd never had previously about their own businesses, they were completely sold on the idea. You see, from the beginning we had to follow certain principles in this. In the first place, it was no use, our getting a very fine and complete report a year after the date to which it referred. It was necessary to get reports pretty promptly. And so we explained to them that it's much better to get news promptly, even if it isn't worked out in a very refined way, than to wait months and years while people were

working on the raw data. On the other hand, at the beginning, many of our clients thought of these reports on projects and on their operations as simply more or less interest in historical data, and they didn't appreciate at all at the beginning that they were essential tools of management. And, again, we had to explain this many times to them. The information that we required them to submit to us was in essence to keep us currently informed of any deviation from the planned progress on the physical side and also of the planned budget of appropriations for the project.

Now, we had difficulty at first in making them see that it was often possible to foresee difficulties before they arose rather than wait until a historical report brought them to your attention after they had happened; and if one could foresee difficulties, then one might take some action to prevent them. And this was necessary to get them to understand because they were always psychologically afraid that we would criticize them for not keeping to schedule. This is very natural, and they were hoping that by the time the next report had to be prepared, they would be back on schedule. Of course, it very often didn't go that way.

Q: Can you illustrate what you're talking about with reference to any particular loan?

Ripman: Well, of course, the Belgian loan, which was for several projects, was one of our earlier loans, and the ultimate beneficiaries were established and well-managed companies with many years' experience in a particular industry. But I remember at one point that by scrutinizing the reports they sent in to us, it was with the project, I think, or [inaudible] that we saw quite clearly that they would have to raise more capital in about a year's time, which at that time the company had not seen for themselves. This is an example of the kind of thing I mean.

Also, of course, in a number of cases by keeping an eye on the way costs were going and by insisting on the revision of estimates of cost, which is quite a lengthy job in a particular project, we were able to show that by the time the project was due to be finished, some more sources of funds must be raised—and to see that in sufficient time so that they could be raised not as a matter of emergency.

Q: Would the Bank before the project got underway join in the management in the planning of projects so that the Bank itself had a schedule of projects?

Ripman: No, this was not really so. In those days, of course, I was not concerned myself with the actual appraisal of the projects. But in general this was not so, although as today it was no doubt true to some extent at least in those days that in looking at a project the Bank would suggest changes and

amendments which might be adopted, so that by the time we financed a project it wasn't always the same as when it was first submitted to us. That is, of course, frequently the case today.

But once we financed the project, then indeed the procedure would more or less work this way: Soon after the signing of the loan agreement we drew up a set of forms of reports and sent them out to the borrower and said, "Please give us these reports at such and such intervals."

Now, when the first reports came in, they were very often pretty inadequate. And it was generally about that time that we made our first visit to the borrower and actually sat down with the people who prepared those reports, went over the report with them to see what they didn't understand or what were the requirements they had difficulty in meeting. And so the final shape of the report was not always firmed up till after this first visit.

Now, of course, when we went out into the field we had to discuss with them the various problems they were up against, and we didn't attempt to manage the projects but were often able to make suggestions. Naturally, as our experience grew, we were more and more in a position to say to people, "Well, we've met this same problem you're up against in other projects in various parts of the world, and there they found that this solution was possible." And so we helped them in this way also.

Q: In the case of the bidding that went on, the international competitive bidding, did the Bank help at this point, too—help them find people who were competent to bid?

Ripman: No, that we have never really done. You see, I think it was so really from the beginning that if we were not satisfied that the borrower's organization was such that he could organize and manage his own project, including the engineering and all the rest of it, we insisted on the borrower employing consulting engineers to do this sort of thing for him. And you will find in many of our loan agreements, a covenant that the borrower shall employ consultants satisfactory to the Bank, and even in some cases—for instance, in certain highway projects—that the borrower shall employ contractors who are satisfactory to the Bank. And, of course, the work of consultants often was in accordance with terms of reference that we had approved and in even some cases written covering the various functions that the consultant would be called upon to do, beginning with the design and specifications, the invitations to bid, the analysis of bids received, the recommendation for the award of contract, the advice on the actual details of the contract, the supervision of construction, the inspection of equipment under the manufacturer and all these different things that consultants were called upon to do.

Q: If a project had a very substantial local currency component not to be supplied by the Bank, did the Bank attempt to supervise that portion of the project anyhow?

Ripman: Well, certainly we supervised the whole project, however much they were financed, from the very beginning. It was quite clear to us that there was no use doing anything else but supervise the whole project.

Of course, that leads one to a difficulty. We never wished to embark upon a project for which the whole financing hadn't been arranged in advance. Now, we ourselves never met the whole cost of a project. If we were dealing with a private company, for instance, it would be impossible to arrange for an issue of shares or borrowings from local banks and so forth to cover those portions of the cost which we were not financing ourselves. But whenever a borrower was a public entity, we were to some extent dependent for the local currency on budgetary funds of central or local character. Now, pretty well every country is only able to budget for one year ahead, and so if we were financing a type of project which had a construction period of, say, five years, there was a built-in uncertainty about the local funds from the very beginning. And this, of course, caused very considerable trouble, because where we were dependent on, say, the central government budget as in the case of the Federal Electricity Commission from Mexico, the following situation arose: Under the loan agreement, the government had undertaken an obligation to

make available all local currency required to carry out the project on time. Now, at that time, there had been various inflationary forces active in Mexico, and the government was following with certainly our full approval a policy of tightening credit, cutting down government spending. At the same time the costs of what we were financing, which was the Miguel Aleman system in Mexico City, went up and up and up. And at a certain time construction was held up by lack of money. Now, this put the Finance Minister in a very difficult dilemma, because the only way without going against his sound money policy in which he could make money available for this project--and he had a contractual obligation to do that--was to cut down the amount of money made available to another ministry. That obviously is a very difficult decision, and in this particular case, as I remember it, it wasn't until Mr. Black in person went down and spoke about the whole problem to the Finance Minister that money was finally made available. Looking back, one can see that although all kinds of difficulties and problems have arisen in the carrying out of projects financed by the Bank, it is quite certain that the most frequent trouble has been the increase of the local currency cost estimates. And this of course frequently for reasons totally beyond the control of the organization responsible for carrying the project out.

I remember in Chile, the hydroelectric project down there, the original estimated cost of which was about \$400 million pesos: by the time that project had been finished, it had cost



more than 2,500,500,000 pesos. That's a factor of six. The actual cost, of course, was not nearly increased in so great a degree. If you took the actual increase in dollar equivalent, it hadn't gone up much.

Q: In other words, the inflation domestically was about the same as the increase in the cost?

Ripman: More or less. But it caused a very considerable problem in covering these excess costs in the local currency. And of course we had the same experience in Brazil. This is a hazard which is more or less built into a lot of the Bank's operations because we are working in underdeveloped countries, and in a lot of those countries powerful inflationary forces are at work. But in the beginning when one is considering the cost estimates, one can put a certain amount of contingencies in to cover this. It's obviously unrealistic to put a contingency element in of five or six times the original cost. That you can't do.

Q: Is this one of the reasons that the Bank has insisted on many occasions that it can't make loans to countries that have a substantial amount of inflation going?

Ripman: Yes, that's true. We don't normally make loans in a country that is incapable of keeping its financial and fiscal house in order or at least doing everything lies within its power

to keep it in order. And so for a long time we made no loans to Chile. For a long time we made no loans to Brazil.

Q: What are the specific danger of the increase in local currency costs of a project other than this one you've mentioned, that they may simply not be able to finish the project at all because of the lack of local funds?

Ripman: Well, that is the main difficulty that you get, waste of capital resources. And delay has two different kinds of effect. If you are building an extension to an electric system, it runs the cost of what you're building up because you have more interest during construction; you've got possible cost of laying off labor and taking it on again later when you've got money; you've got perhaps difficulties with contractors who, if they're not paid, may go away from the job. Various kinds of costs will arise simply from delay. That is one side.

On the other hand, you started off this project with the idea that it would bring in revenue at a certain point of time, and every month's delay is a month's revenue lost at the other end.

Q: It is the delay then rather than the increase in the costs per se which is the disturbing factor?

Ripman: Well, they're both disturbing. If you take electric generation—and, of course, a great percentage of our loans are for electric public utilities—it is the experience in every part of the world that there is a considerable lag between the rise in cost of generation and the rise in rates to cover those costs.

Interview with Hugh Ripman

By Robert Oliver

July 18, 1968

Tape #1, Interview 2

Ripman: What I might have said previously but didn't say was that in our contractual arrangements with our borrowers there are three special problems which form the basis for our end-use supervision work. The first of these covenants obliges the borrower to keep records of the project, the use made of our money and so forth. The second obliges the borrower to give representatives of the Bank access for purposes of inspection to the projects and to the relevant reports. And the third covenant obliges the borrower to furnish to the Bank such information as the Bank may reasonably request concerning the project, its construction and operation and so forth.

It is quite possible to follow what refinement there has been in our requirements for progress reports from projects by looking in the files, where one will find under each project a letter formally advising the borrower of the types and frequencies of the reports which we ask for. If one looks through those letters in chronological order, one will well be able to see the gradual development of our reporting technique—I think as well that way as any other way.

There is a particular letter in the file with enclosures that was written in the fall of 1952 to the national Brazilian

Development Bank, the Banco Nacional Desenvolvimento shortly after it was formed, when that bank had asked us to give them the benefit of our own experiences in this field.

Now, if we turn aside from the end-use inspection for the moment to the procedures for the appraisal of projects and look back to the early days of the Bank when there was a loan department and an economic department, the economic department was in those days presumably concerned with the studies of creditworthiness of countries and so forth. The loan department had a few engineers attached to it, and they did the technical appraisal of projects. The loan officers were responsible for the financial appraisal.

Q: Were these loan officers in the loan department?

Ripman: In the loan department. A few of them are still with us now. And there was a complete separation between the people responsible for appraising the merits of projects for investment and those responsible in the treasurer's department for following up the projects afterwards. The loan department negotiated a form of loan contract with the borrowers in which there were various obligations and covenants contained, but it was the treasurer's office that subsequently had to see that these covenants were carried out and these obligations carried out.

This meant that we had two different sets of engineers in the Bank, one in the loan department concerned with the appraisal

of projects and another group in the treasurer's office concerned with the follow-up of projects. We had two different classes of financial analysts, one in the loan department, the loan officers concerned again with the appraisal of projects, and a different set in the treasurer's office concerned with the follow-up afterwards. It was this division that was changed in the reorganization of the Bank whereby the four area departments and the technical operations department were set up. Then all the engineers were gathered in the technical operations department, and this department worked with a number of economists who were responsible for appraising the economic merits of projects as such and with the various engineers and agricultural specialists and so on who were responsible for appraising the technical side of projects. But these same men were then made responsible also for the end-use supervision of the projects they had appraised.

Q: As distinct from disbursement supervision, which is still in the treasurer's office?

Ripman: Disbursement supervision has always remained in the treasury, although on occasion when the treasury people, of course, are not certain whether the documents accompanying an application for disbursement show quite clearly that the goods are the right kind of goods and so forth, they always refer to the engineers in the technical operations department. And in any case, where the arrangements for the loan are such that the

borrower has to obtain the Bank's permission before placing an order for supplies or equipment, he addresses his request for permission to the technical operations department, who have to decide whether his judgment in proposing to place his order is right or not.

Now, when the reorganization came, there were economists employed in three different places in the Bank—in the economic department where they were responsible for broad economic studies of different kinds, and they were not responsible there for studies in relation to projects; and economists in the area departments, who were responsible for looking over the whole economy of a country and its state of development and deciding on the one hand how much that country could afford to borrow and on the other hand where the priorities for development lay among the different sectors of the economy, and finally economists in the technical operations department who were responsible for appraising the economic merits of projects which had been submitted for financing.

In the very beginning of the technical operations department, in the agricultural division we had some economists whose task it was to do some work not directly connected with projects, but they studied the general overall market position for certain vitally important agricultural commodities, such as coffee, which affected very much various member countries either as borrowers or as lenders. After some time, those economists

were transferred to the economic department where they work today.

The economists in the technical operations department are concerned, of course, particularly with the need for the project from various points of view and the benefits to be expected from it. The market studies they make may, of course, extend to a world study of the market in things like iron ore or aluminum. Or they may be much more confined in their scope. But still today where it is necessary to make a world study of the market for a certain kind of commodity, the economic staff sometimes will do that, although it is primarily required for the appraisal of a particular project.

You've got down here the procedure for the investigation of applications. The Bank, of course, does not normally receive a very formal application for projects. It's mostly fairly informal, and very often the first information about a project that arrives is rather preliminary and rather sketchy. So after that has been scrutinized the next step is usually to send some kind of questionnaire to these responsible for the project.



Tape # 2

Ripman: To begin with, we fabricated a particular questionnaire for each project, but as we got more experienced, we worked out standard questionnaires for some of the most common types of projects. For instance, we have standard questionnaires today for irrigation projects, for power projects. I think they have them for railroads and highways, and we have them also for industrial projects. This saves a lot of trouble, although on each occasion, of course, there are special circumstances and so forth that require one to amend the questionnaire to suit the particular project.

That questionnaire is then sent off to the people who are responsible for the project, and when it is received back the answers are studied in the office before we make a field visit and inspection to complete the information we need for appraising the project and, of course, also to see the site of the project and to make the acquaintance of the men who will be responsible for it. After that field visit, an appraisal report is written, and that appraisal report is considered in the first place in the working party. Someone has talked about working parties, I presume. And after it's passed the working party, it goes up to the Staff Loan Committee, and if they approve it, then negotiators are invited to negotiate a loan.

I should say, of course, that before sending the original questionnaire out, we look very carefully at a project to see

whether there are any questions of policy which should be settled before going into the detailed investigation. This we do because in the past we have been caught short on some occasions having made a complete detailed investigation and then subsequently found that there was some important point of policy that made all the work that had been done simply wasted time.

Q: Could you illustrate that point with reference to any particular loans?

Ripman: Well, the loan which was granted to Mexico for the rehabilitation of the railway in the northwest of the country. Before we looked into that, we had to obtain from the Mexican government various agreements about railway rates and about laying off labor that would be redundant after the project was finished and that sort of thing. I have on my desk at the moment, for instance, a project that has just come in from Pakistan for getting lumber out of the Chittagong hill tracts and erecting a sawmill to cut that lumber. Now, before we go into any detail on this project, I notice that it is proposed to set up a corporation to carry out this project, which would in the first instance be owned entirely by the government, although it is said in information which is available about this project that the government would intend as soon as the project had been set up on a successfully operating basis to sell 49% of the shares to the public. But that would still leave the government with 51%

of the shares. Now, we have a general policy not to finance government-owned industrial enterprises. The philosophy behind that is that, in general, we feel that industrial enterprises are more efficiently run and managed by private enterprise than by government. And so before we go into any detailed investigation of this project or send our questionnaire out to them, we have to discuss in the Bank whether we are prepared to accept such a corporation or whether we should first tell the Pakistani authorities that we would not be prepared to finance the project on this basis.

Q: At what point in the loan negotiations, do you speak of a formal loan application?

Ripman: We don't generally speak of it at all. I suppose that in all loans sooner or later there is something on the file that is a request for financing. But that is not a formality to which we attach too much importance.

Q: I take it that there are some preliminary discussions between management of the bank and potential borrowers which result in the management discouraging submission of requests for financing and that there are others in which it is encouraged, and at some point you begin the formal proceedings of investigating the whole thing.

Ripman: Well, of course, all sorts of things come up to us which we indicate that we should not be interested in financing. We have promoters come in who wish to be able to go and say, "If the government will do this, the Bank will also do it"—to play them one off against the other. Of course, in any case, we can't consider any project that isn't either put up to us by a government or that we don't know that the government will back. We won't consider any project unless we have an assurance that the government will either sponsor it or is prepared to guarantee it. Now, of course, the men in the Area Departments visiting the member countries from time to time and while they are there they are talking with the local government and so forth about the possibility of projects for financing, and out of all these conversations emerge different projects that we actually consider.

Q: But by the time a working party is actually organized to deal with a specific request for financing, then presumably these various policy questions have been decided. In other words, it's been decided they won't be a stumbling block.

Ripman: That's right. The working party actually is the first place where one ventilates these questions. But unless the working party can give an immediate answer, it then falls to be discussed by the heads of the various departments and eventually by the management itself that will take a definite decision.

Q: I wonder if you could say something about the history of this Bank's position that it is undesirable to have government ownership of industrial enterprises. Has this been a policy from the very earliest days of the Bank? Do you recall whether it was discussed as a policy matter?

Ripman: Well, it's been a policy to which there have been occasional exceptions. For instance, in Pakistan we financed a paper mill at Chandraghona working with bamboo as its raw material, and the majority ownership was with the P.I.D.C., the Pakistani Industrial Development Corporation, which is a government-owned body, although a minority of shares were sold to the general public. The P.I.D.C. acted as managing agent for this company. Later on, fairly recently in fact, they sold their whole interest to a private industrial group in Pakistan.

But on the whole since the beginning, that rule has been fairly consistently applied. And, for instance, when it has been a question of setting up a new industrial development bank, we have been pretty consistently insistent on the ownership of that bank being in private hands, although in some countries we have made lines of credit available through nationalized banks in the absence of any development bank as such, particularly in Costa Rica, for instance, where the amount of possible business was not enough to justify the establishment of a separate industrial development bank.

Q: But you don't recall a time in the Bank's history when this was a major policy consideration?

Ripman: You mean when there was a real argument?

Q: Yes.

Ripman: No. Particularly with Mr. Black, it has been sort of an article of faith.

Q: Have many of the governments objected to this policy through their executive directors or otherwise that you know?

Ripman: I don't think so. A good example, for instance, was the loan we recently signed for the development of the potash industry at the south end of the Dead Sea in Israel. That had been a government-owned company, and we insist that the government divest itself of its controlling position. I don't think they liked it too well, but they accepted it.

Q: I should think that in the case of a country like Yugoslavia that this would be a very difficult policy.

Ripman: Yes. That is the reason why in the last loan to Yugoslavia we didn't finance any industrial projects at all, although it's quite true this is an exception. In the earlier

loan to Yugoslavia we did finance various industrial projects. Obviously, there are no privately owned industrial projects there; so that if we were going to finance industry at all, it had to be government owned. And in the early loans to Yugoslavia we did finance this. So one can say that perhaps the article of faith in this respect has become strengthened as the years went by.

Q: Has there been any discussion of this with respect to loans to Africa, particularly south of the Sahara, where there's very little history or tradition of private ownership other than colonial ownership?

Ripman: We haven't in fact financed much in the way of industrial operations down there. We have financed the exploitation of manganese resources in the French Congo, but that was on a privately owned basis; and the iron ore reserves in Mauritania was similarly exploited by privately owned concerns. So that hasn't really come up so far. It may be a difficulty in the future, but we haven't met it yet.

Q: If the Bank as a policy matter were reluctant to extend a loan to a country because of, say, the problem of previous indebtedness not yet repaid or in default, would a policy decision be made not to enter into negotiations on a particular

project because of this before the working party would be concerned with it?

Ripman: We shouldn't even accept any project for study from a country in that position. That's the reason, for instance, why we have made no loans to Greece or to Indonesia. That is a policy without any real exception, although a very curious case came up recently which hasn't yet reached the board, and when it does reach the board it may provoke some very interesting discussion. That is the case of nationalist China. Now, a great deal of the pre-war indebtedness of the Chinese government is in default. But, so to speak, the assets lying behind that debt are no longer in the hands of the nationalist Chinese government. The Staff Loan Committee, in any case, has taken the view that this should not stand in the way of an IDA operation to that government. What the board will say about it we don't yet know.

Q: Has the Bank made any normal bank loans to China?

Ripman: No, because they haven't been creditworthy for lending on conventional terms.

Q: How about the matter of inflation in particular and fiscal policy in general? Will policy decisions be made on issues like this before a project might be acceptable?



Ripman: This is certainly so. This is the reason that for many years we didn't make any investments in Brazil, and also for a number of years until they got their house more or less in order, we didn't make any investments in Chile.