

THE WORLD BANK GROUP/HISTORIAN'S OFFICE

ORAL HISTORY PROGRAM

Transcript of interview with

WILLIAM S. RYRIE

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Interview by: William Becker, Louis Galambos and Jochen Kraske

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Q: I'm William Becker with the George Washington University and the Business History Group.

Q: I'm Lou Golombos with Johns Hopkins University and also Business History Group.

Q: I am Jochen Kraske in the Historical Office of The World Bank Group.

RYRIE: I am William Ryrie, the Executive Vice President of the IFC [International Finance Corporation].

Q: Sir William, we'd like to begin by asking you to describe briefly your educational background.

RYRIE: After school in both India and Edinburgh, I went to Edinburgh University where I did a four year course which ended in an M.A. I studied various subjects including some economics and majored, as you would say in this country, in history. That was from 1947 to 1951. That's the extent of my formal education.

Q: Can you tell us anything more about your history studies?

RYRIE: I did a wide variety of kinds of history, but my main area of specialization was European 19th century.

Q: Could you describe briefly your career before coming to Washington in 1975?

RYRIE: Yes, I did two years in the army after university, which was compulsory national service. I spent one year in Malaya, as it then was. Then I joined the Colonial Office, which was part of the British Government Civil Service. I was admitted to the Administrative Grade of the British Civil Service in the Colonial Office and spent nine years there, including two years on a secondment to Uganda. I then joined the Treasury in 1962 and remained a member of the Treasury for 20 years, doing a variety of jobs and specializing on the overseas side of things.

I was, for a while, the point man on international monetary questions. I had a major hand in the organization of the devaluation of 1967--the practical sides of it. I was the chief personal assistant to the Chancellor of the Exchequer for a couple of years, 1969 to 1971. Then I worked on the public expenditure control side of the Treasury for a while. After my stint at this British version of the OMB [U.S. Office of Management and Budget], I was sent to Washington as the Executive Director of the Bank and [International Monetary] Fund and Economic Minister at the Embassy. That appointment lasted about four years. After that, I went back to a senior position in London. The title of the job was Second Permanent Secretary, Domestic Economy, which was an impossibly wide subject. In fact, I spent a great deal of my time on the affairs of nationalized industries, which were just beginning to be privatized then. I then spent two years as Permanent

Secretary of the Overseas Development Administration, the ODA, and then I came to IFC in 1984.

Q: I'd like to turn to that period when you served as Economic Minister of the British Embassy in Washington, from '75 to '79. Since you served in several capacities as an Executive Director of the Bank and the IMF and as an Embassy official, we'd like you to describe how you divided your time between your various duties. EDs of other countries usually don't have as many responsibilities as you did.

RYRIE: I won't go into a great detail on this, but there were historical reasons for it. The position I occupied was, had been the Treasury Representative in Washington. Its origins date back to World War II. The Treasury set up a senior position in Washington to manage the Lend-Lease Program during the War and it continued afterward. However, even in the early postwar period, the financial relationship between the U.S. and the U.K. was extremely important. Sterling was the second reserve currency, and London, Washington and New York comprised the entire international monetary system. By the 1970s, the U.K. was a great deal less important. Sterling was declining, and the U.K. was no longer the single most important country, but, the Embassy still had a very strong and close relationship with the Treasury. I was, in effect, the ambassador from the British Treasury to the American Treasury, and quite a number of things happened during my time which made that role quite active.

In addition to my duties as "Treasury Ambassador," I had two more pressing responsibilities-- membership of the Boards [of Executive Directors] of the Bank and Fund. I have to say that the IMF took up most of my time. During my tenure, the U.K. made a major drawing on the Fund, and my duties there required a lot of attention. Although I probably gave more time to the Bank than my predecessors and successors, I still devoted roughly 40 percent of my time to the Fund, 40 percent to the Embassy, and 20 percent to the Bank.

Q: Did you have much contact with the IFC during those years?

RYRIE: The IFC, I have to admit, appeared to be a relatively minor part of the Bank Group at that stage. Of course I took some interest in Bank and IFC projects, but there wasn't enough time, given the roles that I had, to focus on them in any great detail. Performing well at my three jobs required three good deputies to underpin me on each job. In the case of the Bank, I focused mainly on policy issues and not much on projects, which I left to my Alternate, mostly. I did a few projects just to get some sense of what was going on, but generally I focused on policy issues in the Bank Board. As for IFC, there were very few policy issues arising there, so I wasn't very involved with the organization.

Q: Who did you deal with at Treasury while you held this three-headed position? Could you describe those relationships?

RYRIE: Ed [Edwin H. III] Yeo was the main person, as Under Secretary for Monetary Affairs, as it was called then. It's now called Under Secretary for International Affairs, I think. He was in that position through the end of the [Gerald R.] Ford Administration, so during the whole of my first year and a quarter I was seeing him pretty regularly. That was an interesting but—attimes--

difficult relationship. The British Government had put itself in a highly vulnerable position. We had been following policies in the U.K. that made us very open to criticism, and we got it. The U.S., meaning both the Treasury and the Fed [U.S. Federal Reserve System], at various points told us--in nuncertain terms--that we really had to tighten things up, and eventually we did. There were a number of us in the machine who rather agreed with the arguments that were coming from the other side of the table.

However, in the course of the negotiations leading up to the British drawing on the Fund, I was frequently in touch with Ed Yeo. In the next Administration the position was occupied by Tony [Anthony M.] Solomon, who later became president of the New York Fed [Federal Reserve Bank of New York] and who has remained a good friend. I got along with him very well, but admittedly the difficult issues were past. Our drawing had been done, and sterling had begun its recovery. Nevertheless, we got on very well. Fred Bergsten was the Assistant Secretary on the international side, and I worked quite a bit with him, too.

Q: Did you remain close to Bergsten?

RYRIE: Yes. We are quite friendly. I see him from time to time. I see Tony Solomon, too.

Q: With whom among the EDs at the World Bank did you work most closely?

RYRIE: Well, inevitably, the American chair--Ed [Edward R.] Fried. He was the [Jimmy] Carter Administration man. Eberhard Kurth was a very good German member. Before him was a man called Hans Janssen, who was not so effective. Eberhard Kurth was one of the most effective members of the Board.

Q: In what sense would you say that he was effective, as opposed to some of the others?

RYRIE: Oh, just that he spoke sense and carried weight. He convinced people. When he spoke, he used few words and people were influenced. That's what makes a good ED. Jacques Wahl, who was also my colleague on the Fund Board where I saw a great deal more of him and who's now with BNP [Banque Nationale de Paris] in Paris, was also extremely effective. I'd have to think harder to remember other members. We used to work quite a lot with the Indian ED, but I can't remember his name.

Q: Did the Board change its way of operation in the years that you were there?

RYRIE: No, I wouldn't say it did. Throughout my time there we had the same President. When I came, [Robert S.] McNamara was well entrenched. He'd been in the job six or seven years, and he stayed right through my time and a little after. He dominated the Board. I'm sure other people have said the same thing to you. The relationship between the Board and the President was rather different from what it has since become. He was a strong leader. He made it clear that he was the boss of the staff as well as the Chairman of the Board. When any Board member put a question to the staff, he would not allow the staff member to reply until he had phrased the question in the way he wanted it answered.

Q: Was that appreciated by the members of the Board?

RYRIE: Well, I can't speak for the rest. I appreciated it because he was quite responsive to members of the Board. McNamara controlled the question and answer process. He would tell the staff to address this question or deal with that point. Now, I suppose there were members of the Board who resented the fact that he dominated the proceedings in that way. As for me, I was representing a strong country (the U.K. was bigger and more important in the mid-1970s than it is now), and we had always had a close relationship with the Bank Management. I really used to rely on seeing Bob McNamara in his own office once a fortnight. If I really wanted something done or something concerned me, I wouldn't raise it in the Board; I would raise it with the President. I would typically ask for a meeting (I'd usually get 5:30 or 6:00 in the evening), and he would chat with me for a while before going home at the end of the day. My predecessor recommended to me that I cultivate a good relationship with the President. He said that was the most important thing to do. He also told me to cultivate a good relationship with the Secretary of the Treasury. My relationship with the Secretary of the Treasury one was not as close as mine with McNamara. By and large, McNamara and I got on pretty well. He was doing the kind of things we (the U.K.) wanted so we didn't need to make a fuss about things. Of course, we'd have disagreements now and again.

Q: About spending?

RYRIE: Yes.

Q: The scope?

Q: Or changing the focus of the Bank's work?

RYRIE: Yes. McNamara made the Bank more of a developmental organization. He focused on the important issues of development. Of course, he also tended to dominate Bank operations, but this wasn't a new pattern of behavior for Bank presidents. Didn't [John J.] McCloy take the president's job with the understanding that he would have control of the Management and the Board would then go along with him? The Board had accepted that rather subordinate role ever since.

As for the U.K., we took the attitude, "Well, we are one of the major shareholders. We can always get ourselves heard if we really want to. So we'll go along with this." Things have changed a lot since then.

Q: That's part of what we want to discuss next. Did the American economy's difficulties in the late 1970s affect any of your working relationships?

RYRIE: I'd have to think. The British Government itself was getting into trouble all over again. We had a terrible year in 1976. The second oil shock had caused a lot of inflation on both sides of the Atlantic. During this period, Ed Yeowas a little imperial with me. He often told us what we should do, and I remember once having a discussion with him and asking if he could imagine a situation where the IMF disapproved of American policies. He couldn't. Tony Solomon was less

inclined to be like that. However, he had less basis for it as time went on. After all, he had a horrifying budget deficit, about \$30 billion!

Q: The interest rates, the rate of inflation, and the international competition was really kicking in those years. Did that result in any uneasiness on the other side?

RYRIE: Oh, yes. There was uneasiness. We seemed to be the whipping boy in the early stages. In the later stages, however, everybody was in the dog house, and the U.S. was not in a position to lecture.

Q: Turning back a bit to the fact that you had several official responsibilities, we believe that aspect of your job gave you a unique perspective on some of the institutions in which you served. In particular, we are interested in the differences between the workings of the World Bank and the International Monetary Fund. Therefore, I'd like you to compare a bit the intra-Board relationships at the IMF and the Bank, and the relationship of these Boards to the heads of these institutions.

RYRIE: I haven't got anything very novel to say on that issue. Yes, the Fund Board was more effective. The Bank Board was, I think, generally of slightly lesser quality. I think the Fund Board was of higher quality. There was a strong tendency for the Bank Board (for reasons we've just been talking about) to go along with the Management. The Bank had a very strong leader at that time, so its Board was a little submissive and not very impressive in its debates. The Fund Board was, and I think still is, a somewhat more independent body. Now, there was a tendency to accept the Management line, but the Management had to work a bit to get it accepted and it was not unknown for a proposal for a stand-by, for example, to be modified. During my time the Fund Board was a forum for the discussion of all varieties of major issues--the operation of the SDR [special drawing rights] system, sales of gold, and other international monetary questions. These were open discussions where the Management line did not always prevail.

As a Fund Board member, I felt that I could make a significant contribution. Another important difference between the Bank and Fund Boards was that in the Bank Board the ED representing a country for which a project was being proposed traditionally remained silent, whereas in the Fund, when the U.K. was looking for a borrowing, I was one of the spokesmen. I and the Management together had agreed on a proposal. Management introduced it, and then I would speak to it, defending the record of the British Government and supporting the proposal. In short, I had a far more active role in Fund discussions than in Bank discussions. I suppose that's why I tended to spend a bit more time in the Fund Board. It was more interesting, frankly.

Q: Were you a good diplomat at Board meetings? Did you act as a solicitor acts when he argues on behalf of his client?

RYRIE: Yes. Oh, yes. I was a representative of my government. Obviously I wasn't happy with all of its policies, but that never came out at the Board.

Q: As I read over some of the things that you have written, one thing that surprised me was your firm belief in the delegation of authority.

RYRIE: Delegation and accountability, yes, in management.

Q: A bit more than McNamara, at the time?

RYRIE: At the time, there was a great deal of unhappiness about McNamara, because (a) he was regarded as tremendously autocratic, and (b) he was regarded as out of touch. He didn't see people. He was in some ways a shy man, but in other ways, he was not. He didn't see people of middle or junior rank, and he didn't walk the corridors and shake people's hands. I think there was a management weakness there. Another management weakness stemmed from the fact that he was tremendously able and a total workaholic. He had taken over the Bank when it was relatively small, and it had grown with him. As a result, McNamara just felt that he could take all the important decisions, and he did. That was a problem. The Bank could not continue to be run in that manner, especially by a newcomer, and especially by a newcomer with less energy than he. In that sense McNamara created a management problem.

Q: How would you characterize the differences between the staff/Board relationship at the Fund and the staff/Board relationship at the Bank?

RYRIE: There was an interesting difference in style. I've spoken about how McNamara would direct the staff, and how he would behave as the boss of the staff at the Board. In the Fund the Managing Director traditionally was Chairman of the Board, but he detached himself a little from the staff. He didn't instruct them in the same way as McNamara. Sometimes, he would take the Board's side against the staff, but always with great courtesy and tact. This was true for the Managing Directors I served with, [H. Johannes] Witteveen and [Jacques] de Larosiere.

Q: Others?

RYRIE: Since Management could not assume that it would get its way in the Fund Board, the Managing Director might spend a bit more time talking to Board members outside the Board about upcoming issues, but then, McNamara did that as well. If he thought something was going to go wrong in the Board, he would have us all there to find out what was going to happen so he wouldn't be blindsided. He liked to have us all into his little conference room. He always wanted to know what was going to happen in the Board.

Q: He met with the whole Board?

RYRIE: Yes. In that little conference room, the one that Barber Conable used as his office. He might have the Secretary of the Board there, who was Purviz Damry, but not usually any other staff. These discussions tended to focus on policy issues, not specific projects. Salaries were a good example. This was the kind of issue which was frequently a problem because the U.S. objected to the salary increases that all the Europeans thought were necessary. Before a meeting of that kind, McNamara would summon all of us to his boardroom, and he would find out what was going to happen. If it really was going to be a disaster, he would postpone the meeting.

Q: Can you talk a little bit about the relationship among the Board members in the Fund and in the Bank? In the Bank, as I know it, there is a sharp division between Part I and Part II. Is the same in the Fund?

RYRIE: Less so, I would say, less so. Members of the Fund Board tended, even if they were Part II, to regard themselves as international monetary officials concerned with managing the international monetary system. There were occasions when the Board split between Part I and Part II countries, but that was regarded as a rather bad thing. In the Bank, on the other hand, this division was a bit more accepted. There were certain developing country members in the Fund Board who took quite a tough line on international monetary issues. I remember there was a splendid ED called [Byanti] Kharmawan, an Indonesian who didn't give away anything very easily. He was an old Indonesian who spoke Dutch and the Managing Director of course was Dutch, as was the Dutch Director, [Pieter] Liefstinck. Occasionally the Board would break into Dutch, with everybody else baffled.

I would like to tell one little anecdote, since you are interested in the comparisons. During my first week at the Bank and Fund, several Bank Vice Presidents came to pay a call as did many heads of Fund Departments (the Fund's equivalent to Vice Presidents). During those meetings, I was struck by the fact that the Fund people talked about the world economy, the international monetary system, the international balance of payments, and international liquidity. The Bank people, on the other hand, talked about what was going on in the Bank, and the problems with Mr. McMamara and all that. They seemed to be much more inward looking--much more preoccupied with institutional problems.

Q: Are you saying that you found the working atmosphere at the IMF, in some ways, more professional than the atmosphere in the Bank, at least during those four years?

RYRIE: Yes. I think I would say that.

Q: More professional and less political?

RYRIE: No. Not less political. I think everybody in the Fund, if anything, may be more political because everybody knew that political considerations lay behind all the financial and economic arguments that we were using in the Board. You could never get away from politics. Everyone understood that the American Director, Sam [Sam Y. Jr.] Cross in my time, had explicit instructions from his government. There were certain things she couldn't say. The major countries tended to be more constrained than the smaller countries, of course. Now, this is true in both the Bank and the Fund, but most of the EDs represent a dozen countries, so they have a bit more freedom than the single country representatives. There have been one or two grand old men at the Fund like Pieter Liefstinck, who had been Minister of Finance of The Netherlands and who was quite senior when I was on the Fund Board. He spoke with personal authority. [Alexandre] Kafka, who's still there, did as well. I don't think anybody on the Bank Board had that kind of status.

Q: If we may, we'd like to move beyond your two years as Second Permanent Secretary in the British Treasury to the time you served as the Permanent Secretary of the British Overseas

Development Administration. In particular, we are interested in how the ODA worked with the World Bank.

RYRIE: Well, the attitude in the ODA towards the World Bank was very positive. At the time when I was in charge, we were very much preoccupied with financial pressures. The [Margaret H.] Thatcher Administration was trying to cut the budget and went about it in the proper Treasury-like manner. Treasury decided that all our total aid monies must not rise above a certain level. They didn't care too much how the ODA used the money, as long as we came in under budget. The budget cuts put us in some hot water. Brussels was gobbling up a larger and larger share of our shrinking budget. Now, we could have responded to this problem by trying to cut back on the World Bank side of things, but we were very disinclined to do that because we tended to feel that amongst the international institutions this was the best way of spending money.

Q: This was the co-financing?

RYRIE: These were our payments to IDA [International Development Association]. We tended to feel that IDA money was a hell of a lot better spent than Lome [Convention] money and the European Development Fund money. The European system has improved since then. I think they've got their act together a bit on certain points.

Q: Fill us in a little bit on the difference between the World Bank, Lome, and the European Development Fund.

RYRIE: Well, the most flagrant bit of misuse of money in the European system was food aid. It aided European farmers much more than the people who needed food. Subsidized commodities tended to flood and destroy local markets and undermine local agriculture. Generally, they were a bad form of aid, and I believe that's all been quite radically reformed since then.

Another feature of the Lome system was that it was very, very political and each country was-- more or less-- given an allocation of money. This was their entitlement, so conditionality was extremely ineffective. The Bank, meanwhile, was being much more prudent. It didn't tell its client countries that they were entitled to X amount of dollars regardless of their policies.

Q: Would you say that the Bank was taking a longer view of the development process?

RYRIE: They were more involved in how the money was going to be spent. Lome was much more inclined to hand it over and let the local government do what they wanted. They did get somewhat involved. They knew how the money was going to be spent, but that was very much at the discretion of the recipient government. Don't forget that the entire process was highly politicized. The French would argue for more money for the former French colonies. The British were never as good at those games as the French were. So, yes, the feeling in the ODA was pretty positive about the Bank, but particularly about IDA, rather than IBRD.

Q: What is your view of the ODA's co-financing relationships?

RYRIE: Co-financing with, with the Bank or . . .

Q: With the Bank.

RYRIE: Now?

Q: No, back then.

RYRIE: The business of aid coordination was really just building up in those days, as was the consultative group system with the Bank in the chair. We were strongly for coordination and we thought the Bank was the right institution to manage it, but I don't remember us jointly financing very many projects. I wouldn't be astonished, however, to find that my memory is at fault.

Q: At the beginning of your tenure at ODA you indicate a high regard for the Bank's operations. Did your view of the Bank or the IMF or of the IFC change at all during your time there?

RYRIE: No, I don't think it did. With my background as an ED, I tended to be rather more pro-Bank than some others might have been.

Q: Was there was a point in your career where your personal interest in the development problems and that really soared, or did you always gravitate toward those kinds of problems?

RYRIE: Because I grew up in India, I felt drawn to developing countries early. While in the Army I didn't go to Malaya by chance. I asked to go to there. Then I was in Africa, and my career at the Colonial Office. After a while, I couldn't really see where that was going, so hungry for some financial expertise and knowledge, I went into the Treasury, which was quite fascinating. I was delighted to find that, although I was in the UK Treasury, I could deal with international things. I was always much more interested in that than domestic matters. When the ODA came up, it was an opportunity to go back to an old interest, really. The Washington period further strengthened my interest in the developing world, so, maybe I made a bit of a diversion and came back.

Q: The Bank and the Fund were created in the shadow of the Cold War. In the institutions' early days the Cold War mentality had a profound effect on Bank/Fund policy. Did this situation change at all in the late '70s/early '80s?

RYRIE: I don't recall anything that evidenced itself in my working life. Reading newspapers is another matter. I don't remember it impinging very much. It was another world. We didn't get much into security and military things. To us, the Soviet Union was remote world with which we had no contact.

Q: So it never came up? China?

RYRIE: Maybe chaps like you were aware of China, but most of us were paying very little attention to China. China was a communist country, and we didn't pay it much attention. I don't recall any significant change in that general scene in the '70s or early '80s.

Q: Did those kinds of questions come up in the choice of projects or investments? That Cold War context did not come up in any precise way? It was just in the background?

RYRIE: I think I missed the shift you're speaking of because I was back in the U.K. on the domestic side. The shift was the [Ronald W.] Reagan shift, and I suppose there must have been quite a number of issues that the Fund considered in the early '80s in Africa, where the Cold War factor was important, but I wasn't involved then. I left at the end of '79, a year before Reagan was elected. I don't recall it being a tremendously key factor in ODA deliberations either. There was always the background of this huge amount of aid going to Egypt and Israel, but it didn't impinge on my work very much.

Q: But when you did come back to Washington into that work, then there was a marked difference in . . .

RYRIE: In the Cold War context?

Q: Yes.

RYRIE: Once again, I wasn't, I don't think that it impinged on our work terribly much. Of course, we had to keep out of certain bits of the world where the Cold War was hot, like Angola, but I don't think there's a lot more to this.

Q: Okay.

Q: I guess, then, that you didn't see the U.S. ED acting in a Cold War context.

RYRIE: No. In the Bank one tended to get irritated with the U.S. ED for a different reason. The U.S. was the only one that was prepared to put the interest of its own producers on the table and say, "We don't want these damaged." They had this extraordinary doctrine, which was based on some act of Congress, which said that the U.S. must not support facilities for the production of something which is in "oversupply." This meant that if you have a highly inefficient copper producer in New Mexico and you have somebody in Chile who is a highly efficient producer, the Bank and the IFC must not support the Chilean producer. The Chilean producer can find money from somewhere else, but he mustn't get it from these institutions. This affected other commodities as well--steel, soybeans, and others. This pattern has continued right up to today. I don't think I can recall any other member of the Board who was prepared to say that he opposed a project because it would hurt producers in his own country. The other EDs thought that this stance was rather anti-developmental.

Q: In returning to Washington in 1984, as we understand it, you were first to take a position in External Affairs and deal with IDA?

RYRIE: No. That was earlier. There was a possibility. [Alden W.] Clausen asked me if I would take a position as a Vice President responsible for IDA. I came over once--it must have been about the end of 1982--and I had an interview and I talked with him, but I decided not to take the job because it was very ill-defined. It was clear I was going to have no staff, and I had enough sense to realize that, in the Bank, without staff you are nothing. However, I must have stuck in Clausen's mind because when the IFC job came up, he asked me and I took it on the spot. I had no hesitations about that one. It was a quite different proposition.

Q: Now, this represents a rather substantial change in your career, too, in that you now work for a public institution with a dedication to private enterprise, as opposed to a public institution that is oriented to the public enterprise. Did you see the choice in those terms?

RYRIE: Well, I could see the way the wind was blowing, and we were all going with that wind. Whereas I was a convinced socialist in my youth, I did get older and wiser

Q: Could you date when you no longer felt that way?

RYRIE: Well, it was gradual, but I suppose the most significant change was during the late '70s when the Labor Government in Britain was doing rather badly.

Q: Had your experience at ODA begun to change your thinking about these kinds of issues between public and private?

RYRIE: No. I don't think so. However, that experience at ODA left me feeling a little helpless as to whether I was really getting at the real issues. The one hesitation I had about taking the IFC job was that I felt that IFC was a slightly peripheral organization, and I wasn't sure how subordinate to the Bank it was. I remember saying to myself that there were certain advantages. I could see it was a job that had potential and that the moment was right, and although it looked a rather small job, I said to myself, "Maybe in a while it will be a rather bigger job."

Q: So when you first came in and you surveyed both the organization and your staff, what kind of response did you have to that?

RYRIE: Well, on the whole I enjoyed my first period here. For the first time, I felt that I was really in charge. That was very important to me. Although I was reporting to the President of the Bank, in practice I was the Chief Executive of this place. The fact that I had to deal with the Board was quite important, but I always had the initiative. I didn't have somebody giving me instructions, which as a civil servant I had always found rather frustrating. I seem to be going off the subject a little bit, but my civil service career in London was the most satisfactory when I was at the middle level, when I was the expert on some subject and the Ministers really needed me. When I got to the top level, they didn't need me. I was just an advisor. I didn't take the decisions, and I didn't know as much as the people below me. The IFC job, on the other hand, is a real management job. I have to know my stuff and take decisions. I was quite nervous at the beginning. I wondered how I could get myself accepted and take decisions and get things done, but it worked out.

Q: At that point, did you feel that you had the kind of staff support you needed? You've mentioned that before.

RYRIE: Initially, IFC appeared to me as a really rather ingrown place, very much stuck in its ways. It needed to open out, and I was very keen to bring in some outsiders. I tried to do so, but I didn't really succeed. Some people I appointed from outside did not work out. The quality of the staff was varied. There were clearly some extremely good people, and some others who were not so good. Nevertheless, it was a very close-knit institution which would reject a foreign body unless the foreign body was the boss. I had to make it clear that I was the boss. It's still like that a bit.

Q: It has been around for almost thirty years, and so you can understand how it had become ingrown.

RYRIE: It hadn't changed its structure much during that period. It ran from 1956 to 1977 before it had its first capital increase, which was then an enormous one. The first capital was a hundred million, and then it went to six hundred and fifty million in 1977. When I arrived, I was astonished to find that I and all the department directors would sit around the table and go through every project to find out what progress was being made. Of course, I was completely bewildered. I didn't know anything about any of these projects, and the numbers were getting quite high. Even at that stage, we were doing 70 projects a year.

Q: That didn't strike you as odd?

RYRIE: It was a hangover from the period when IFC was doing 20 projects a year and when the EVP [executive vice president] really did take the decision to go ahead in each case

Q: You had a different management style in mind?

RYRIE: Well, I had never managed a risk-taking institution before. Coping with the Board came as second-nature to me, but finding a proper system for taking business decisions, risk-exposure decisions, was another matter. I didn't want to do it all myself. I knew that I really wasn't the right person to do it myself because I was not experienced in this area; therefore, I had to rely on other people with more experience, and I had to get their cooperation. Gradually, I began to change things. I changed the structure after I was in about four months. First, I got rid of one or two people, and then we changed the procedures about a year or so later. There were two stages. In the first stage, we consulted with the Bank's organizational group. .

Q: Jim [James M.] Kearns?

RYRIE: Jim Kearns was not involved himself, but Richard Lynn and I got hold of a fellow called John Hunt, who was a professor at the London Business School. He didn't do a normal consultancy job for us. He just made a number of visits and took part in weekend-long conferences where we decided on the structure that I created. I had inherited a structure of cylinders, where one person was in charge of Latin America and Europe, another person was in charge of Africa, and that was all. Everything went through the EVP. In its place, I decided to

create this matrix system (which some people thought was crazy) in which there was one vice president in charge of all new investments, another vice president in charge of the portfolio and some other things including capital markets, and a third vice president in charge of the finances and general policy and planning. In my mind, the great merit of such a system was that each of those three vice presidents had a corporate-wide view. They had to look at the whole corporation.

I was very keen to create a little management group which would really run the place. I approached it in a completely arbitrary way, saying, "What size should that group be for an institution this size?" My answer was four--me plus three. That's how we got that number. Eighteen months later we were beginning to have serious portfolio problems, so I made one of those vice presidents purely portfolio, and switched the capital markets stuff over to the operational side. Dan [Daniel F.] Adams succeeded by Will [Wilfried E.] Kaffenberger did that job. I think that was an effective way of dealing with our portfolio problem, which had become fairly serious. We did have to take strong action on that, and we got it turned around.

I didn't have a lot of management consultants deciding these things. I've had many encounters with management consultants since then, however, and I've grown increasingly distrustful. The big reorganization which I did a year and a quarter ago, I did without them. Once again, we had somebody from London to give us some help, but he wasn't a major factor, once we knew where we were going.

Q: Could you just briefly describe one of those weekly meetings? Did the people at the top of the cylinders come in and argue for their particular program?

RYRIE: Yes, I was a little bit aware of "you scratch my back, I'll scratch yours. If you support my project, I'll support yours. And conversely, if you attack mine, I'll attack one of yours." There wasn't enough time for me to experience a lot of it myself, however. This is one of the reasons why this matrix was a good idea. Under my matrix system, there was only one person supervising all the new business. There could be no mutual backscratching. More importantly, however, the matrix forced responsibility down. The Vice President in charge of new business couldn't handle all the projects. That was good, really. It meant that the VPs had to rely heavily on the directors of departments and the heads of the investment department. As a result, director level personnel became much more significant. They became the key people in IFC, and so they've remained.

When we reformed the procedures about a year later, we formalized that quite a lot. Until then the Investment Committee, which consisted of the senior management and myself would consider all projects twice: once at an early stage to decide whether to proceed with appraisal and after appraisal to decide whether to proceed to the Board. We decided to cut that out, and some people couldn't understand why we cut out the second one and not the first one. The Investment Committee screened projects to make sure that they fitted in with IFC's policies and that they were suitable for their particular countries. This provided an opportunity for the senior staff, who had a lot of experience, to issue some warnings and guidance and say, "Look out for this problem, or that problem." After that, however, responsibility for the projects lay with the Investment Department Director. He had to go through a process which ended with a formal decision meeting, with everybody concerned attending. That meeting had to be properly recorded, so that if

problems arose about this project later, we could see who took the decision. That amounted to accountability. Now, that wasn't the end of the road. The project still had to go to the Board. It would still come up through the Vice President, and me, and then to the Board. The Vice President's primary responsibility was quality control. The Director would take the decisions, but the Vice President could interfere if he thought that there was serious risk.

Q: He had a veto power.

RYRIE: Yes, he certainly had a veto, yes. Jud [Judhvir] Parmar, the person in that position as the number of projects grew from 70 to about 160, became increasingly adept at intervening selectively. That was good. It meant that he could take a look at each one, and if he detected a problem, he would have everyone involved with the project into his room to go over it. He didn't try to cover the whole field. That seemed to work.

Q: In making the early decision to do this, obviously you came in and found problems with a hidebound bureaucracy and its standard way of doing things. Did your decision also stem from some idea you had of changing the direction of the IFC? In other words, had you decided that the IFC had some potential to do things differently or expand its mission, and, as a result of that, did you feel the need to change the structure of the organization?

RYRIE: No. We could talk about what kind of mission I saw, but it didn't radically affect the reorganization effort, except in fringe aspects like publicity and external relations. Those elements were regarded as a waste of time in this institution. Of course, it's very important that we make ourselves known around the world, that people understand who we are. I had a big fight to get any serious attention given to that subject at all.

Q: There's a place where you'd want to bring in a new person!

RYRIE: Yes. I've haven't been successful on that score. I've had several dubious successes, at any rate. I think we've got the right man now.

Q: Is it hard to change people in your organization?

RYRIE: I think it's more difficult than it is in J. P. Morgan or any other purely private institution. I had to be rather careful. I was an outsider. I wanted to manage by consensus as far as possible. I sometimes imposed my will, but only after consulting with my staff very carefully. On appointments, I consulted with them a lot. I didn't know the people very well, and they knew them much better. However, in the Bank group, firing people is almost impossible. When you have somebody in a job who's hopeless, you can find someone else who's going to do it better, but what are you going to do with the chap you kicked out?

Q: You have to keep him.

Q: It sounds like a university.

RYRIE: Yes. It's tenure of a kind.

Q: Let me ask you about the reorganization, jumping ahead a little bit.

Q: Don't jump too far, because we need a lot more detail.

Q: No.

Q: You may be surprised that we are so interested in the details.

RYRIE: I am a little, yes.

Q: Well, you see, we see this historically as a major innovation.

RYRIE: Which is the innovation?

Q: The innovation is what happens to IFC. It becomes a different organization. It functions in different ways, and it experiences substantial growth. The way you've characterized the first 28 years fits with our picture of it. Now it's changing into an organization that is attuned to environmental changes. You've talked in your own writing about how the world should be and how the IFC is going to be a very important organization and play a more important role. We want to catch this transition and its dynamics. Those elements come out of the details, because you've changed the details of how it runs.

RYRIE: Well, if you want to talk about the changes that took place in the first few years I was here, there are a whole range of them. The structure is one thing, and I think we've, at least sketchily, more or less covered that. The philosophy is another, and I think, without boasting, one of the things I've done for IFC is to give them a little more of a creative philosophy. Before I arrived what we were and what we were about was rather unclear. One of the ideas that was around, for example, was something called the "dual strategy," which meant that you do some projects to make money and other projects for development. I'm caricaturing a little, but this was a widely held view. I think it was Moeen Qureshi's view, and I decided from the very beginning that I didn't like it because it didn't make sense. We have to marry profit-making with development and insist that we pursue both objectives in all projects. That's the heart of IFC's role, really, to try to promote successful businesses which also aid development. We don't promote development by creating businesses that are loss-makers. It's not very developmental to support a weak company. Similarly, we shouldn't ever make an investment just to make money. We should also have a development role.

Q: Was this your idea? Did you reach this conclusion after being here a few years?

RYRIE: After a few months, yes. Now I think that's become the accepted credo.

Another part of the philosophy that was really quite important was my push to emphasize the activities of the Capital Markets Department. The Bank and IFC had created the Capital Markets Department in the '70s. It was headed by a very awkward fellow called David Gill, brilliant but combative.

Capital Markets was our only specialist department, it did just capital markets work, and they were fighting with everybody all the time. David Gill was quite convinced that he was the Cinderella of IFC; that he was always being neglected and ignored. I made sure that Capital Markets was not the Cinderella, but the flagship of IFC, because if you are going to promote economic development through the private sector there's nothing more important than creating a market-based financial system. I immediately latched on to all the work we were doing on stock market development and the country funds. David Gill was an awkward fellow but he was a great innovator. He did a great deal for IFC. He developed country funds that are traded on New York and other advanced exchanges through which people can invest in an emerging stock market like Korea's. This has been the biggest innovation on the development scene in the last fifteen years. Gill used stock markets as a means of mobilizing local savings and applying them to the private sector, and as a means of bringing in foreign investment from foreign investors. That's something I'm really proud of.

Q: Earlier, you mentioned risk assessment as a vital question. When did you begin to feel that you were getting the kind of information and the kind of decisions you needed on risk assessment?

RYRIE: I don't think I can put a date to it. It was gradual. In the year or so after I came, we became increasingly aware of our portfolio problem, which was partly due to some difficult economic conditions in the world, but it was also an indication that some poor investment decisions had been made. Jud Parmar, who was chiefly responsible for the new investments under my organization, was very much aware of the problem and took special care to deal with it, making sure that we learned from our mistakes. Now, time will tell, but I think the record since then is quite a lot better. Although we are having some deterioration in the portfolio right now, it's not very serious.

Q: Did you attempt to quantify risk assessment in the McNamara style?

RYRIE: No.

Q: It was a judgmental question?

RYRIE: Yes.

Q: I was thinking of the background of Vietnam, actually, where they quantified things that couldn't be quantified.

RYRIE: Oh, yes.

Q: And they got the results.

RYRIE: No. McNamara is a great man for whom I have the most enormous admiration, but one of his weaknesses was that he believed in statistics to the nth decimal point.

Q: Yes.

Q: So you are interested in making better judgments.

RYRIE: Yes. Judgment is not the same thing as a hunch. A judgment must be based on careful assessment of the facts and careful investigation and careful consideration of your experience. We don't want to repeat the same mistakes. However, if you went about it one way, you could say that a high percentage of your projects you do in Africa fail; therefore, we shouldn't do investments in Africa, but that's a decision we can't take. We have to go on doing certain things. If we go into Africa and find ourselves doing hotels and textiles and things that are risky, we have to work harder at designing the projects right, making sure the management is right, and making sure the markets have been investigated properly. I think we've gradually improved the quality of our decisions.

The other big thing that happened in the early years, for which the credit really goes to Richard Frank, was that we started doing our own borrowing.

Q: Tell us a little bit about that decision.

RYRIE: I'd only been in IFC about three weeks when Richard Frank came to me and asked me if I would be interested in the idea of launching a borrowing program on the market for us, for IFC. And I thought that was a terrific idea, so we started very modestly and built it up gradually. We started with some privately placed bonds, and that grew and grew. Eventually, our operations in this area became so significant that we had a talk with Ernie [Ernest] Stern about it. Until then we were getting all our borrowed money from the Bank, and Ernie, to my delight, preferred that we do all of our borrowing ourselves with the Bank backing us. We still borrow a very small amount of certain fixed-interest unusual currencies from the Bank, but 95 percent or more of our borrowing now is from the market and has been for a long time.

There was a story that led to our conference with Stern. After borrowing for about three years by private placement, people in the markets began to demand more liquidity. They wanted tradeability, so we had to get a rating and make public issues of bonds. We got our rating in '88, and it was by no means a foregone conclusion that we would get a Triple A. Richard and his people did a terrific job, and we got a Triple A from both Moody's and Standard & Poors. Now some people say, "Well, but look who your owners are. You are owned by the World Bank." We are not owned by the World Bank. Every one of our bonds has stamped on it, "This is not an obligation of the World Bank." On the other hand, we are part of the World Bank family. We are owned by the governments of the world, but that doesn't mean you automatically get a Triple A. We are in a risk-taking business. Our bond rating reflects our financial performance and policies. It is reviewed every year and it's a pressure on us to keep our finances in good order. I've had very good financial people here.

Q: Are your borrowings in some way related to your equity base?

RYRIE: Yes. In fact, that was one of the policies we had to adopt. According to our Articles, we can borrow up to four times our equity base. Equity base equals subscribed capital plus retained earnings. We don't go that far in practice, however. The rating agency said that as a

condition of the Triple A they wanted a limitation to 2.5 times our equity base, and the Board approved that. We may be going to change that slightly in the near future, but basically that is the thing which limits our growth. We've grown very fast, but in the long run our growth is limited by our capital and by that factor. We could only go faster than that by putting our Triple A at risk, which would be crazy.

Q: So that puts you, in a sense, pressing on the Board a bit? Doesn't it?

RYRIE: Pressing on the Board? How?

Q: Looking for growth in the future; that is, if they are looking for the opportunity some place down the line to have your capital increased.

RYRIE: Well, yes. But I had one great good fortune. I arrived with a capital increase already in place. It had not been formally approved by the Board of Governors, but it had been approved by the Board of Directors.

Q: Had there been resistance to that?

RYRIE: Yes, but mainly just on budgetary grounds.

Q: It was going up to 600 million then?

RYRIE: No. It must have been 650, and it was doubled from 650 to 1300. I also inherited a plan--although a sketchy plan--for growth for the next four or five years. They were simple projections, but we fulfilled that plan. By 1990, we were no longer able to expand because of that limitation on the two and a half times our capital that we can borrow. Our ability to grow was dependent on our profitability. We could grow just as fast as we earned profits. I'm glad to say we had tremendously improved our profitability then, but we were still not expecting more than about eight percent profit, whereas for several years in the late '80s our new investments had grown 20 percent. Since our profits were lower than expected, we went back to the shareholders and had a long fight to get another capital increase. I asked for another doubling from 1.3 to 2.6 billion dollars. Eventually, we got one billion, which is really what we had in mind in the first place, but only after a huge amount of stalling and resistance by the U.S. Treasury.

Q: Were you surprised that the U.S., especially after the '80s and the Reagan Administration seemed to be opposed to expanding an organization that was committed to developing the private sector?

RYRIE: Yes. It was very puzzling. The Under Secretary for International Monetary, International Affairs, David Mulford, determined the U.S. line on this issue because the Secretary of the Treasury, Nicholas Brady, didn't involve himself in these affairs at all. Mulford was very dominant in the Treasury, and nobody under him could take any significant decisions. I've never fully discovered why he held up the capital increase. He definitely held it up for at least

ayear. We had everybody on board except the U.S. by early 1990, and they just told us flatly, "You are going to have to wait."

Q: Even Congress was agitating for this.

RYRIE: The people in the Congress were quite supportive as were people in other parts of the Administration, like the State Department. The Europeans were also in favor of the capital increase. Why did Treasury hold us up? The ostensible reason was that the IFC should only get its capital when the World Bank, as a whole, had reformed itself on the question of handling the private sector. They said that they wanted IFC to be the lead organization on the private sector, and they wanted us to have the dialogue with governments about policies affecting the private sector, which, of course, you can't separate from other policies. They even wanted us to make it a condition of IFC investment that a government should conform to what we said about policy. We responded by saying that we couldn't do private sector development that way. We believed that the Bank should maintain the dialogue with governments. We were prepared to give advice to the Bank about what they should say, but we should not be an instrument of conditionality on governments.

To make a long story short, the IFC prevailed and got the capital increase on its terms, although not without a long discussion which led to arrangements for closer collaboration between the Bank and IFC. I must say that the Bank was extremely cooperative. Moeen Qureshi, who was then in charge, was extremely cooperative. I've since been told by other people that the main holdup was that David Mulford was chiefly concerned with getting his Enterprise of the Americas initiative through. This was his personal initiative, and it was highly political. He believed that he really could only get one thing through Congress at that time, and his Enterprise initiative was getting priority over everything else. Even so, it's still a bit of a puzzle to me, and I don't fully understand why the Treasury behaved as it did. There's no doubt whatever that they held up our capital increase for something over a year.

[End session 1]

Session 2
September 17, 1993
Washington, D.C.

Q: I'm Bill Becker with George Washington University and the Business History Group.

Q: And I'm Lou Golambos with Johns Hopkins University and the Business History Group.

Q: I am Jochen Kraske, the Bank's historian.

RYRIE: I am William Ryrie, the Executive Vice President of IFC.

Q: Very good. Today we'd like to follow up on some of the things we spoke about in mid-August. We left off talking about some of the reorganizations you instituted at the IFC, and the one that we really didn't fully discuss was the reorganization of 1992, and so we'd like you to start by talking a little bit about that.

RYRIE: It was a major reorganization. I think in some ways it was the most radical reorganization IFC has ever had because before it took place the structure of IFC at the working level was essentially identical to that of the early days. That's to say, the bulk of the business was done by regional departments. We had eight of them which, with one major exception, did all kinds of business. Cement plants, oil plants, hotels--they did them all. Capital Markets was the exception to the rule. The Capital Markets department did all of our financial sector work worldwide. The Capital Markets people frequently fought with the regional people, causing a great deal of friction.

Shortly before the 1992 reorganization, I had set up another small specialist unit to do corporate finance advisory work, mainly privatization. Eventually, however, I concluded that we needed to introduce more specialization into our work and that we needed to have multidisciplinary units. We needed to team the technical people who are, by their nature, highly specialized, with the financial people who would be partly specialized. The financial people would be devoting three or four years of their life to getting to know a sector, a particular type of business in some depth, thus enabling them to establish much better working business relationships with the private companies in that field. We selected four main areas where we thought this kind of specialist approach would pay off best: infrastructure (transportation, telecommunications, and power generation); oil, gas and mining (the energy industry and the mineral mining industry); chemicals, petrochemicals and fertilizers; and agribusiness.

Agribusiness was a rather different kind of category because the first three were all areas in which major world companies operated and there was a lot to be gained by establishing good connections between IFC specialists and those companies. Knowing the companies and their priorities, they would find quite a lot of business, not in the developing countries but in London, Houston, Tokyo or other industrial centers.

Q: When would IFC normally contact one of those companies?

RYRIE: Well, I wanted to establish a good deal of continuing contact between our organization and private companies, so we could learn about their investment programs and pinpoint areas where we could help. Beyond that, we contacted them at various stages in their programs, from feasibility studies right through to the investment decision.

Agribusiness was a rather different case. It's a case where we felt that our record was rather bad. We'd made many investments that lost a lot of money, yet it was developmentally very important. We couldn't possibly ignore it. We had to learn how to do it better. We just thought we'd set up a group and say, "Let's see how it goes." It has been a spectacular success. I can't say that for certainty in terms of profit yet, but I believe the profits will come. Vertical integration is very important. We make sure that the people who grew things were well and closely connected with the people who sold them. We always pay a lot of attention to the growing end, but we usually finance the companies who buy the growers' products, very often processing and selling them.

Specialization was one of the main objectives of the reorganization, but I had another objective as well. I felt that we could establish better strategies for each region. Alongside our new specialists' departments, we reduced the number of regional departments to five, Latin America, Europe (including Russia, etcetera), the Middle East (including Central Asia), Sub-Saharan Africa, and the rest of Asia. Those departments now do all the business that is not reserved for specialists' departments. They do a lot of investment in general manufacturing, but they also try to formulate our overall approach to those areas and share their ideas with the specialists' departments.

Q: Can I ask you a question about that phase?

RYRIE: Yes.

Q: When you went from eight to five, that also gave you an opportunity to change some people around and do some other things. Was that an aspect of this?

RYRIE: Yes. It had certain advantages. I got a department covering the whole of sub-Saharan Africa where I think the issues are unique. It also enabled us to diversify the ethnic backgrounds of our staff. I regret to say we had far too many of our African staff members working with Africa. It was very difficult to shift them into Europe or Latin America under the old system. The reorganization allowed us to shift them into oil, gas and mining, or infrastructure.

The reorganization also helped to lessen the friction between Capital Markets and the regional people. I broke up the Capital Markets department and regionalized it. That move went against the general trend of the reorganization, but it was just what we needed. Capital markets work is very specific to each country and region. The way you handle it in Africa is quite different from Asia, etcetera. Recognizing this, I put a capital markets division under each regional director. We didn't stop there, however. We appointed a vice president to supervise the whole capital markets activity worldwide. His job was to make sure that we didn't lose our capital markets focus and expertise. I think that this system of matrix reporting is working well. There has certainly been a surge of energy in the Corporation. I often think that I should have done this a bit sooner,

but in the years preceding 1992 I was very worried about the capital increase, and I didn't really think it was appropriate to launch a big reorganization until we had our capital approved.

Q: Could you talk a bit about the relationship between the IFC, other investment banks, and the World Bank itself? How does the IFC become, compete with these other institutions, and where do you see a greater cooperation?

RYRIE: Clearly, we have to work closely with the World Bank. Our roles are complementary. There is a little overlap here and there (in the capital markets field and financial institutions and so on), but generally the roles are distinguishable. Perhaps in the past we've been a bit too separate. Nowadays, the Board is very eager to see IFC cooperate with the Bank. They want us, IFC, to ensure that our investments conform to Bank strategies. That isn't always a realistic goal because we can't plan in quite the same way as the Bank can. The Bank works with governments, and we work with private sector partners when we can find them.

Nevertheless, we have taken a lot of steps forward in consultation. There is, I think, much more consultation now at the working level. For example, over the last two years we've been working with the Bank on Private Sector Assessments, or PSAs. These documents review the condition of the private sector in certain countries and the policies that affect it. From those analyses, PSAs enable us to draw conclusions about what the Bank and IFC's priorities should be. I think that effort has progressed fairly well. Of course, all forms of cooperation depend on the attitudes of individual people. Some are positive and some are not so positive, but I think we've made some progress in cooperation.

Now, cooperation with other institutions. .

Q: Can we just stop on the World Bank?

RYRIE: Yes.

Q: Do you think that the IFC's emphasis on privatization and markets represents a break with the Bank's traditions? If privatization and markets are the wave of the future, then in a certain sense it seems to me that you are breaking away historically from the roots of the Bank, and its basic ideology.

RYRIE: It's a very important change in the whole development business, but I'm not quite sure that I would describe it as a break with the Bank. For the last decade or so, the world has been moving towards the market philosophy, and the Bank has been played a major role in that process. It has strongly encouraged governments to follow the sort of policies that allow market forces to work.

Now, that clearly raises some questions about the nature of the international development effort. I would say that it clearly calls for reducing the emphasis on official lending to governments and increasing the emphasis on the kind of activities which support market-based solutions. There ought to be a relative reduction in Bank-type activity and a relative increase in our type of activity. Furthermore, I would still say that, although we've expanded very strongly over the last nine or

ten years, the proportions aren't right yet. I think the Bank's training activities should be somewhat reduced and ours should be somewhat increased.

However, I do not mean to imply that we should displace the Bank or take over their functions. The Bank's work is tremendously important and tremendously needed. It's a matter of the relative scale of things. Although IFC has grown enormously, we are currently experiencing a demand for our services and for our financial resources which vastly exceeds what we can supply. I don't think that's true of the Bank.

Q: Do you see the Bank meeting some of this demand?

RYRIE: Well, that's an idea that's being discussed from time to time. People have suggested that the Bank change its Articles of Agreement so that it can lend directly to the private sector, but where does that logic take you? If you are going to do the sort of things that IFC does, you have to conform to certain principles: functioning like a business (on a bottom-line oriented basis, so that you share the same risks as the people you are investing with), making good business decisions, being a catalyst, and all those things. Well, if you were to use some of the Bank's resources to support the private sector, I think you should apply the same principles, and if you did that in the Bank, you'd simply be creating a duplicate of IFC. What's the point of that? It would be better to enlarge IFC at a reasonable rate. IFC is, at the moment, considerably constrained in what it can do by the amount of capital it has. We keep thinking about ways in which we can increase our growth without asking the shareholders for more capital. Some have suggested that the Bank transfer some of its capital to IFC.

Although a transfer of capital from the Bank to IFC seems like a good idea, it does have its problems. The Bank's own capital generally doesn't consist of money but of guarantees, or callable capital. Our capital is cash. And the way we work is that we leverage that capital up to a rate of two and a half times our equity. Now, one of the questions we are still reviewing is whether we can't relax that limit a bit and give ourselves a bit more headroom while not endangering our Triple A rating. My successor will have to consider this and other exciting questions about how IFC can maximize its impact with limited resources.

Q: And those other institutions. . .

RYRIE: Well, there are the other multilateral banks, and the one with which we have by far the most contact and cooperation is the European Bank for Reconstruction and Development which was established only two and a half years ago. They have pretty much the same mandate as we do. When the Communist regimes collapsed in Europe, it was obviously necessary to do something new, and the choice essentially was between additional funding for the World Bank and IFC or a new institution, so (for political reasons, largely) they went for a new institution. This does mean that we and the EBRD are doing the same kind of job, but it works. We exchange information freely. They know everything we do. I think we know about everything they are doing. Furthermore, we very often work together on big projects where it's difficult to raise money.

Q: Such as . . .

RYRIE: Such as the one that just collapsed. The Volkswagen project. Volkswagen walked out of the signing ceremony yesterday. That was extraordinary. That was the biggest project we had ever approved, and now it's in pieces.

Q: This was in Czechoslovakia?

RYRIE: In Skoda, in the Czech Republic. We and the EBRD were jointly going to lend (and mobilize from banks) a total of DM [Deutsche mark] 1.4 billion. It made sense for us to work with the EBRD on a project of this magnitude, but on smaller projects it doesn't make sense for us both to be in there. The clients choose their financing partners, and we just need to make sure that we are not competing on terms. It would be very bad, and very unseemly, if we were trying to get the business by offering lower interest rates or something. I think we can be quite sure that's not happening. Nevertheless, I don't think a little rivalry between us necessarily does any harm. We don't have very much contact with the other regional banks (the Latin American, the African, the Asian), but occasionally we do a bit of co-financing.

You meant the multilateral banks? You are not speaking about private institutions?

Q: Well, that was something we wanted to ask about as well.

RYRIE: Well, people sometimes wonder if we are competing with investment banks. To be sure, we are a kind of investment bank. We do a lot of investment banking sort of work. However, in most of our project financing, the issue doesn't arise.

Q: Will you tell me why it doesn't arise?

RYRIE: Well, no one else does exactly what we do: putting projects together and raising money for them. We often cooperate with commercial banks by bringing them into these projects, but they come in because we bring them in. They are not anxious to take the lead role. They believe their risks are reduced by coming in with us. We have this B-Loans system, which is lending through IFC.

I don't think any major investment banks have complained that we compete in their field. Some of them say that we compete over privatization. We have a small unit that does some privatization work for fees, but we always make sure to charge market fees. We don't try to get the business by undercutting the merchant banks or investment banks. In fact, we do very little privatization work. We have a unit that consists of about twenty people, and the amount of business they are doing worldwide is not undermining anybody. It's generally in cases where the government clearly wants an international body like us to be there because they think we are more objective or something. There was some noise about this a couple of years ago, but I haven't heard much lately. I don't think it's a serious problem.

The other area where we sometimes compete is the business of underwriting issues of securities by companies in the developing world. We firmly believe in encouraging the developing country companies to go to the major markets and issue stock or debt securities, and we are prepared to do some underwriting in those cases. Now, this has become quite a big business in certain parts of

the world. The Morgan Stanleys, Salomons, Rothschilds and so on are all looking for that kind of business in Mexico, Chile and some other countries like Indonesia, Thailand and Malaysia. As for IFC, we do a small amount of it. We have a deep knowledge of those countries, and we have a lot of contacts with companies who might not otherwise go to the international markets. If we do this, we always do it jointly with a private investment bank, although we always insist on being one of the joint leaders. However, last year we did about six of these, so the scale of this activity is not a threat to the merchant bankers.

Q: If you had an interest in places like Latin America, why isn't IFC working jointly with the Latin American Development Bank?

RYRIE: Well, the IADB [Inter-American Development Bank] works with governments, not the private sector.

Q: Oh, I see.

RYRIE: It's very much like the World Bank.

Q: Like the Bank itself.

RYRIE: Yes. For quite a number of years, Latin America has been our biggest area of investments. Now we're reducing our exposure there. The reason for that was quite clear. During the years of the debt crisis, there was almost no access for private companies to foreign exchange capital. We were one of the very few sources of it. As a result, we were mostly lending, not to foreign investors, but to local companies. Despite all the problems in Latin America and all the debt and inflation and all that, there were a lot of good companies there. The paradox was that with all the apparent mess in Latin America, we had a strong portfolio which performed very well. We had very few problems.

Recently, the story has been changing. Latin American countries (and companies in several of the countries) are getting access to capital markets. Chile is very much in the lead in this respect. Chile is now investment-grade, and we are not much needed there. Our role as a financier is expiring because they can find money themselves. Throughout South America, companies are realizing that they can go to the international markets. The stronger ones can, and we are trying to help the ones that can't. Nowadays, our main role in Latin America is facilitating companies' access to capital markets.

Q: Are private banks being more careful this time around than before the debt crisis? Of course, they lent to the public sector.

RYRIE: They lend to the public sector, yes. This is private sector risk, yet they are still rather cautious. For example, we are doing quite a lot of syndicated loans in Argentina this year, and, once they get over a few hundred million, it becomes a little difficult to persuade the banks to stay on board. They have limits. Open access is not a reality yet.

Q: I suppose there is also a question about the size of projects. I assume that the IFC and the

investment/commercial banks both prefer to do the largertypes of projects. However, I would also assume that IFC'srole as a development institution compels it to look atrelatively small projects, particularly in Africa. How doyou view this issue?

RYRIE: Well, it doesn't really seem to work out that way. Onthe big projects, when we are in there, it's nearly alwaysbecause there's a real problem in raising the debt finance.

One of the very big projects we did in my early days in IFCwas a huge copper investment, Escondido, in Chile. It hadthe finest copper ore in the world, four percent copper ore,but Chile was regarded as rather risky in those days (1986).Chile needed a huge amount of capital, something like \$1.2billion, and they just could not put it together unless wewere in there mobilizing some banks. We had very little tocontribute on the technology or any of that. It wasprimarily a loan finance raising operation, although we didtake a small equity stake as well. We were hesitant atfirst because we didn't know what was going to happen to theprice of copper, but it shot up just after we made theinvestments. That was very good.

Q: Your comments made me think of a question of the profitperformance. In any of the reorganizations did you changethe way people were evaluated?

RYRIE: In 1987 we did introduce a system of profit centers, sothe performance of the investment departments and theirdirectors and other managers is judged partly (not wholly)in relation to how they perform on the profit objective.

Now, you may ask, what is the profit objective? You have tobe very careful about answering that question. Making moneyin Latin America is relatively easy nowadays while makingmoney in Africa is pretty difficult. In other words, we hadto set realistic objectives and then judge them by how fullythey achieve them. Profit is not our ultimate objective.It's something else. It's called "Development."

Q: It's a constrained profit evaluation.

RYRIE: Yes, but we reorganized ourselves to make the mainoperational departments profit centers. Now we have tenoperational departments now--five specialist, five regional--and they are all profit centers. They are responsible fortheir own bottom lines, which means, also, that they have tolook after the portfolio of investments in their area. Webelieve that the people who make the investments should livewith them, although it doesn't always work because very often if things go wrong in a project, it's five years later andthe staff concerned has moved somewhere else.

Q: Is there greater movement within the IFC, among thestaff and personnel, than at the Bank?

RYRIE: I think probably not. I think this has been one of ourweaknesses. We are correcting it now, but there is aconsiderable lack of movement. I talked about the Africansgetting stuck in Africa. In some ways, this is a reflectionof the personnel systems and policies that apply both in theBank and IFC. There's a great deal of what I call"voluntarism," people are moved as a result of negotiationbetween themselves and their managers. They go and see thehead of some other

unit and say, "Can I move to you?" There isn't central management and control of personnel movement.

The Bank has a bit more of it. They are a bit more systematic about it. They plan people's careers better. I brought in a new personnel director recently, and we've started to do this more systematically in IFC, but I think it has been something of a weakness with us in the past.

Q: So what you'd like to see, then, is rotation system like a private corporation would normally have.

RYRIE: Precisely. We've introduced a new system of rotation. Every summer some people are moved with career development in mind, but also the benefit of the Corporation. It's kind of difficult to make it work because you have to get the right balance between central initiative and consent. You can't just order people about in these institutions as if they were soldiers in the army.

Q: People don't see this, though, as a career enhancing move? Because in private sector corporations in the United States people welcome the kind of moving around because it's a sign that the upper levels of management see them as having potential.

RYRIE: I think there's quite a difference between the younger people and the older people. I think the younger people do see it that way, and the older people are a little more conservative. We did the first rotation this summer, and it seemed to go quite well.

Q: While we are on the question of personnel, where are you drawing your new people from?

RYRIE: That's a good question. It's a question of some importance for us because we are expanding fast and we have to recruit a lot, and I'm worried about the fact that we are recruiting predominantly very young people. Now, we do get a very bright sort of person in IFC, and the World Bank, too. Certainly IFC attracts highly able people with a high degree of dedication, and I'm struck by the sharpness of some of these young, these 30 to 32 year-olds who come in. However, when you look at the figures, you realize that an alarming proportion of the staff of an investment department have been there one year or two years. They are bright but inexperienced. If we are going to continue to bring in staff from the outside, we must have a proportion of those staff more experienced. Some come to us from the Bank. IFC may be reluctant to admit it, but many of our best people have come from the Bank. There are also some Bank people who find the transition to IFC unacceptable, but there are always a certain number who do come and who do very well. Looking forward rather than back, we've been trying to institute some systems for bringing in a certain number of 40-year-olds. The trouble is that while we are very competitive in pay terms at age 30, we are not so competitive at age 40, but that isn't the real obstacle. I think the real obstacle is that managers are very suspicious of the more experienced people. They think they can't control them so well.

Q: They are probably right.

RYRIE: They can't mold them into the way of the institution. Well, I think the institution suffers from not getting a small admixture of experienced people from elsewhere. I think we've got to try and improve that.

Q: Has there been a change in the makeup by nationality of the people that you've attracted over the last five or six years?

RYRIE: No. Not much. There are certain persistent problems in that area. We have areas of the world from which it's very difficult to recruit. Japan is an obvious one. Latin America used to be less of a problem. When Latin America was full of military dictators, the intelligent people ran away and came to the World Bank and to IFC. The outbreak of democracy in Latin America has been disastrous for recruitment. We have quite a number of Europeans, but not enough--probably because the exchange rate makes the dollar salary look weaker than it really is. Sometimes people say that the reputation of Washington as the murder center of the world discourages some people. We get lots of Americans, British, Indians, Filipinos, Pakistanis and others.

Q: Well, with the shrinking of firms on Wall Street there must have been a lot of people looking for work.

RYRIE: Yes, but, we have to be careful. When that kind of thing happens, it's the weaker brethren who leave. I get two letters a day across my desk asking for jobs, but we don't take very many of them.

Q: If I may just back up a little to the point of IFC's relationship with the World Bank. One of the questions we were trying to get at earlier was what influence the IFC and its interest in privatization has had on the Bank. Specifically, we wanted to ask about was the [Fred] Levy Report of 1988 or '89.

RYRIE: Well, that wasn't so much about privatization. It was about financial sector development. We thought that was a good report. It was about trying to make development efforts conform to the market philosophy as much as possible. The report hasn't always been followed. There are cases, which IFC is well aware of, of Bank money being lent without exchange risk at rates of interest well below the rate of inflation in some countries, which is not consistent with Levy.

While the Levy Report was being prepared, however, there was a big discussion going on connected with our capital increase, and the U.S., who was resisting the capital increase, was asking for much closer cooperation between the IFC and the Bank. In some ways, they were asking IFC to play a role which we didn't think we could play. They wanted us to take the lead in all private sector development projects. Neither we nor the Bank thought that that made a lot of sense, but it did lead to some guidelines about how we could cooperate in that field of financial sector development. There is now a rule--which I think still works in practice--that whenever either institution makes a loan to a financial institution (a bank or something) the other institution has to be consulted.

Q: An issue that obviously has been very important to the World Bank in recent years is the whole series of issues relating to the environment. How has that affected the IFC?

RYRIE: We've become much more conscious of this. We genuinely have. In our case, the main thing is to make sure that all projects are rigorously examined to minimize any adverse environmental impact. We have a set of procedures which are somewhat different just because we are dealing with private sector companies. That's really the only reason for there to be any difference. The Board has been a little suspicious of this because they tend to think that we are trying to escape all environmental pressures, which is absolute nonsense. I think most IFC people are extremely keen to use our influence as much as possible and get our client companies to adopt high environmental standards. We set out some rather simple procedures for this. They were very clear and concise, but they didn't satisfy the Board. As the Board complained about our procedures, I realized that what the Board wanted, frankly, was verbiage. They wanted something not five pages long but fifty pages long with all sorts of grand principles and so on. So we now have a 50-page document which, I think, will be far less practically useful than the one we had before. Still, it's certainly something we have to pay a lot of attention to now, and we do.

Q: Do you think that the IFC may avoid projects involving difficult environmental issues because the procedures are so cumbersome and difficult?

RYRIE: Yes. I think you are hitting an important point, not only because the procedures are cumbersome but because of the risk that we are going to be attacked. We do projects where we think we are making a positive contribution. There was a hydroelectric project in Chile, where we supported this project which involved damming a small part of a river which was famous for white water rafting, and NGOs [non-governmental organizations] from all around the world attacked us. Meanwhile, the Board was quite convinced that our intervention was doing a great deal of environmental good. We only had to move 53 people from a local tribe, and they were delighted, of course. We gave the tribe new housing elsewhere. We persuaded the firm that was building this dam to set up a foundation to preserve the culture of this tribe. We did all sorts of things. Chile needed power very, very badly, and this was the least environmentally damaging way of doing it. Nevertheless, I sometimes wonder if it might have been easier for us just to have left the thing alone. This is a very, very important subject, and I take environmental risks very seriously, but we do deal with some fairly crazy people in that field.

Q: Have you encountered any environmental resistance from your clients or sponsor companies?

RYRIE: Some, but on the whole I would say that, to a surprising extent, they accept the need to achieve high environmental standards. I suppose people really don't understand that if they are going to deal with a unit of the World Bank, they are going to have to meet these standards.

Q: It is a particularly difficult issue, because it often appears that it's anti-development, anti-growth.

RYRIE: Yes.

Q: And then you've got the struggle between countries that need the growth and those that have the money.

RYRIE: Yes. It tends to degenerate into a Part I/Part II kind of thing, where NGOs in this country and some from certain countries in Europe follow what we do very, very closely, and very suspiciously. However, our procedures require us to consult the NGOs in the country concerned and that really ought to be the main thing, shouldn't it?

Q: You don't conduct any of these environmental studies. You accept or approve the companies' studies or work with them to get the right studies?

RYRIE: Work with them to get the right study is the way to put it. We have a little group of specialists here, the Environmental Unit, and they categorize projects. Category A is for those with significant environmental risks. B is for those with minor environmental issues. And C is for those with no environmental issues. We are really concerned mainly with Category A. In the case of Category A, there has to be an environmental assessment, which is arranged and commissioned by the sponsor company but with our agreement. It's usually done by a consultant of whom we approve, and it has to be done speedily. The results must be made available to NGOs in the country concerned.

Q: The last time we talked, you discussed public relations a bit. This is an area where public relations are involved.

RYRIE: Yes. I think we, the Bank group, are getting the wrong end of the stick on this for reasons I don't totally understand. There is a high degree of suspicion. They won't accept that we are actually trying to achieve these high environmental standards, which I believe we are.

Q: Are you satisfied with the public relations effort that's being made?

RYRIE: In the environmental field? You are not speaking about public relations in general.

Q: Yes.

RYRIE: No. I can't say I am satisfied. I don't think we've resolved this problem yet. I think we are still getting a bad press on this subject. That dam in Chile was, in my opinion, a first-class project from an environmental point of view, yet the NGO papers still refer to it as a dreadful thing.

Q: We'd like to talk about some current issues, current goals, and future goals. How do you see the IFC coping with the increasing demands of Eastern Europe, Africa, and Latin America for private sector development while facing the lower profitability from the sluggish international economy?

RYRIE: Well, the sluggish international economy I hope is a short-term phenomenon. I mean, the U.S. economy was pretty sluggish 18 months ago and is now doing reasonably well.

Europe, on the other hand, may take a little longer to come out of it, but we have to think about these things in a rather long-term context.

The big issue here is the adequacy of IFC's resources. We are investing a little over two billion dollars a year now, in 165-170 projects. From one point of view, that's quite a lot of money. However, if you look at the needs of the world, it's rather minuscule. We're trying to get the private sector to finance most of these needs. We want to be involved only in those cases where our presence makes the difference, and that's got to be a narrower category.

Infrastructure is a good example. A decade ago, all this investment (power generation, telecoms, transport) was done by governments, and now governments everywhere are looking for private finance to do it, (a) because they are short of money, and (b) because many of them at least believe the private sector will do it more efficiently. The switch to private financing in infrastructure has been very marked. Now, somebody has estimated (I think this is a Bank estimate) that between now and 2000 the demand for infrastructure investment in the developing and ex-Communist countries will be about \$200 billion a year. Some of that will come from the public sector; some will come from the private sector. IFC is currently investing about \$500 million. Of course, we are a catalyst and our share of those investments would be probably under ten percent, so we may be talking about \$5 billion or something, but still, the question is whether we are succeeding in dealing with all the projects where our presence really would make the difference. I think it's reasonable to assume that we are meeting far less than the need. The evidence supports this conclusion because we are getting far more demand than we can meet. In an ideal world where there are no budgetary problems and so on, there would be a case for quite a lot more capital for IFC, but that isn't going to happen.

Q: I tried this on Jochen earlier and I didn't get any response at all from him, but some of my very conservative friends--and I have some very conservative friends--say there is a rule of two. Have you ever heard that expression?

RYRIE: A rule of two?

Q: A rule of two. That every public venture costs twice as much as any comparable private venture? You don't use the rule of two, then?

RYRIE: No, but the principle is familiar.

Q: He claims that this was based on some, some World Bank Group studies, but. .

RYRIE: It may well be.

Q: but I don't know. I can't find anything about this so far.

Q: I would suggest that the study was probably done by the Heritage Foundation or the Cato Institute.

Q: Cato, right. I probably would have said Cato.

Q: What area do you see as having the most potential for IFC to have a positive impact?

RYRIE: What area geographically?

Q: Yes.

RYRIE: Well, regionally I would have thought there were countries in all the regions where we can make a significant impact, but the reasons for that vary quite a lot from one area to another. We know many, many countries in different regions where, for whatever reason (some inadequacy of government policy), there is a lack of long-term capital. The capital markets are not providing the long-term finance on reasonable terms that the private sector needs.

Now, you can think of some areas where the capital markets are beginning to do so, but the need still greatly exceeds the supply. I'm thinking of the up and coming countries of Asia, like Indonesia, Malaysia, Thailand and so on. However, questions are now beginning to arise about our role there. Those countries, as they continue to make progress, will become like Korea and Taiwan where our role is finished. If you look at Latin America, the role is pretty well complete in Chile because the government's policies have been very friendly to markets.

Markets don't work perfectly, however. Although there are places where things are going quite well in some respects, there is still a lot of poverty around. Even in the richer countries of Asia and Latin America, there are a great many pockets where we are needed. When you look at Africa, of course, you have a quite different story. It's just desperately difficult to get any investment going at all, and we have different methods there. No one ever has any problems with our role in Africa.

In the former communist countries, we are trying to help the process of transition to a market economy. There, I see our role as one of being a complement to the IMF, which is dealing with it mainly at a certain level, and the World Bank, which is dealing with it at a sectoral level. As for IFC, we usually deal with it at a very institutional, transactional level. We try to get individual companies or banks or whatever to function effectively.

Q: What particular problems have you had? Do you get the kind of entrepreneurial response in Eastern Europe that you are looking for to support private ventures, or are you looking for outside companies to move in?

RYRIE: In Poland, the Czech Republic and Hungary, you can certainly find the entrepreneurial response.

Q: Hungarians have always been like that.

RYRIE: Right.

RYRIE: Actually the Poles are really very like that, and the Polish economy is now over fifty percent private sector. Lots of new businesses have been springing up. However, the other

countries of Central Europe (Rumania, Bulgaria and soon) have just been much more difficult, but I don't think one can say that this is due to a lack of entrepreneurs. It's because the governments have not been reforming in the same way. Russia is another story, and again I think our problems there don't arise because we can't find entrepreneurs but because of the country's general economic conditions.

Q: What about Russia's monetary problems?

RYRIE: They are a factor, but they are closely linked to political conditions, the lack of a stable government to control the money supply and run a proper budget and so on. In the case of Russia, we think we've achieved a great deal by getting privatization going. Mr. [Yegor] Gaidar, who's just been brought back into the cabinet, was heard to say at a recent meeting that IFC had more impact on Russia than any other international organization. A little bit of boasting, but the reason for that is that IFC, funded by the U.S. and some other donors, went in and did a lot of technical assistance. It was not a matter of writing reports and sending them back to Washington; it was just getting on with making things work on the ground. Our people devised a system for the auctioning of small businesses, shops and restaurants, in the city of Nizhny Novgorod, the third largest city in Russia. This system became a model for the rest of Russia, and we wrote a manual and distributed 45,000 copies. This has become the system by which all small businesses are privatized in Russia now.

From small businesses, we moved on to help with the auctioning off of major companies through their voucher system. We did not invent the voucher system. That was their idea. In addition, we are now experimenting with some land privatization in the same area of Nizhny Novgorod, in the hope that once again it will become a model. This I think is one way you can have a big impact on Russia. Russia is so varied, so huge, that everything depends on what it's like in one region or another. Nizhny Novgorod has become a center of our operations because it has a highly reform-minded governor and mayor. You can do things in one oblast, but you can't do them in the oblast next door, so you try to create islands of success here and there. The operations in Russia have been very exciting. It's all very unlike like IFC's regular agenda. It represented a break with our previous activities--lending, financing, and investing.

Q: Has IFC been involved in privatizing any of the large state enterprises in these countries?

RYRIE: We've taken on some specific privatizations, yes. We privatized the cement sector in Poland and a number of banks, hotels and things like that. There's a big industrial complex called Skoda Plzen, an engineering complex in the Czech Republic which sold exports to the former Soviet Union. They invited us in, and we collected a group of consultants and drew up a plan for the disposal of this large firm. I don't think the plan was really effectively followed through because Siemens of Germany was supposed to buy the main part of the complex but they backed out after pondering it for a year. In summary, we have privatized a few large state enterprises, but our effort was by no means comprehensive.

Q: As the World Bank became more involved in particular regions of the world, it became more and more involved in the process of economic development. Do you feel that the IFC has exhibited (or will exhibit) this same tendency?

RYRIE: Clearly, the transition to a market economy requires major macroeconomic measures, which is not our business, but they are absolutely vital. Poland, for example, took them in one big step (Balcerorvius on the first of January 1990), and it created the right conditions for markets to begin to work. Those are the things which you can do quickly if you've got the political courage and power. Changing the structure of industry, you can do only rather slowly.

Q: There's also the question of high unemployment that comes with a lot of the restructuring. Does IFC ever get into any of that?

RYRIE: No. I happen to think that most of that unemployment will probably be absorbed by new business and not by the reform of the old businesses. I think a lot of those old dinosaurs will die. That's probably true in Russia, too, but it will be a very slow process.

Q: Finally, we'd like to turn to some larger, one or two larger questions about what you see as the qualities and skills that are needed to be an effective leader of the World Bank.

RYRIE: To be the head of the World Bank?

Q: Yes.

Q: Yes. To be head of the World Bank.

RYRIE: Well, I don't think he or she really needs to be a banker. Clearly, Bob McNamara was not a banker. I don't think it really is a banking job, although there are banking aspects to it. I think it's a highly political job. In my view, the best head of the World Bank is a rather good public figure who is at ease with Presidents and Prime Ministers and can tell them where to get off if necessary—somebody who's rather strong and confident.

Q: Isn't it more the vision thing that is important? I mean, certainly if you look at McNamara, that was his strength. Clausen and Preston presumably had a lot of managerial experience, but they had very little involvement with development issues as such and therefore could not motivate their staffs.

RYRIE: Yes. I fully agree. I didn't mean to exclude that. The President of the Bank also has to be a leader in thinking about development—someone who creates a vision, not only for the Bank itself but for the countries who support the Bank. I would like to see a new head of the Bank who is 50 years old and really vigorous and able to do some serious axing and re-direct the organization. I think there's a real challenge there for somebody to do something about it.

Q: Thank you very much.

[End of session 2]

[End of interview]