

WORLD BANK HISTORY PROJECT

Brookings Institution

Transcript of interview with

WILLIAM RYRIE

**December 12, 1990
International Finance Corporation
Washington, D.C.**

Interview by: Richard Webb and Devesh Kapur

*[Begin Tape 1, Side A]*¹

RYRIE: . . . the British government?

WEBB: Yes.

RYRIE: Since--over what period?

WEBB: For a long period. Since the war, I think. I'm not certain.

RYRIE: Well, that's recent.

WEBB: Yes. Would you like--of course in talking to people, some of your staff, we're trying to track down particular events.

RYRIE: Is there going to be *[inaudible]*--it's going to be an interpretive history, not just a factual narrative, is it? You're going to try and detect trends over long periods, not just tell the things year by year by year in a kind of . . .

WEBB: I think my personal preference--I don't know about John *[Lewis]*--personally will be trying to not get carried away with *[inaudible]* I think we will have a natural tendency to try to find the theory and try to develop different stories. I'm not a historian of this period of time. This is the first time I've ever done anything on this order of magnitude.

RYRIE: John Lewis is?

WEBB: Oh, he's a fine historian. We come from that bias.

RYRIE: *[inaudible]* historian. Never mind.

WEBB: I have some rather general questions to ask you. First, I was wondering--thinking about this history, how you would see its handling of the IFC?

RYRIE: I haven't thought about these things at all, so if I don't answer too quickly, it's because I'm thinking. I don't quite know what you mean by the question. We've been there since 1956. We were very small to begin with. We grew gradually, and we became very much more significant in the 1980s. There is perhaps not so much to tell about the early years. It could be told fairly quickly. You would, I think, have to decide whether you tell that.

This is something to do with the structure of your whole study. Do you tell that as a sort of adjunct to the Bank's operations in the '50s and '60s and '70s, or do you have a sort of

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

separate piece about IFC? I would have thought the former in which you tell this as part of the story of the Bank, the Bank Group, because the fact that it was felt necessary to have such an institution is significant in its own right. It says something about the Bank.

People felt they needed--in some ways, you know, you might gear that in with what did the membership expect of the World Bank in the 1950s. I suppose there were two main ways in which the Bank was thought to be not enough, not adequate to deal with the challenges. One was that it was not thought able to deal with the private sector properly. That was IFC. IFC was very small. And the other was, of course, IDA [*International Development Association*]. You might put these two things in parallel [*inaudible*] IDA which came a little later. We are a little older than IDA. That was in response to another very special challenge: uncreditworthiness in very small countries and the emergence of the--largely Africa, I suppose, from colonialism. I don't know whether I'm answering your question. I think I would put it in the context of the development of the World Bank Group.

But then there comes a period later, as I say, in the last decade when--perhaps starting in the late '70s--when IFC becomes much more significant in its own right. Then you get to--this is why I was talking about identifying trends because I think in a very broad and sweeping view of things in many ways the Bank was very typically a product of the philosophy of the '50s and '60s. The Bank started in the '40s, admittedly, but it didn't really find itself, didn't really define itself and its character very much until Eugene Black, I suppose, in the late '50s and into the '60s.

Now that period, sort of late '50s, '60s, there was a great deal of optimism about development. There was also a great deal of optimism about the ability of governments, the state and official institutions, to organize economic advance, and that view underlay, underpinned a huge part of the great international development effort, which was, you know, an historical phenomenon of an amazing kind. Nothing like it had ever happened before. People and governments used enormous amounts of money to develop other countries. I mean, not totally altruistic, but there was a very large altruistic, generous motivation in it, and there isn't anything like that anywhere in history before. So you have this great phenomenon, but it was based on this view that somehow governments can do it.

And now we've all become disillusioned with that. I mean, nobody believes that governments can organize economic growth now. The prevailing philosophy of the 1980s, of course, was that forces of the market must be allowed to work and private investment has got to be the real engine of growth. That kind of thing is no longer controversial. It's accepted in Europe and North America and even in most of the developing world. And yet we still have the World Bank, and I'm a little bit singing our tune now. This is where a different kind of approach related to the private sector became much more relevant, as it were. I would personally like to see the history of IFC presented in that kind of very broad context. In the late '70s and '80s we've become much more relevant as the world shifts to this type of thinking.

William S. Ryrie
December 12, 1990 - Verbatim

WEBB: This interpretation certainly leads to a very concrete proposal to the way in which the Bank, what the Bank has been doing; in other words, the IFC ought to play a much larger role on the part of the Bank.

RYRIE: Well, many people are saying that.

WEBB: In the Board?

RYRIE: Yes, especially the United States.

WEBB: The Europeans?

RYRIE: Not quite so strongly. Oh, the Germans are certainly saying it, absolutely, and the British.

WEBB: Is this part of the recent spurt in IFC [*inaudible*] is it coming out of this kind of thinking, or is it rather . . .

RYRIE: Well, it has happened in stages. I think our recent spurt--now, we're talking of quite a long period--we have had a very good, very rapid period of growth between '85 and '89, the second half of the '80s we grew very, very fast. That was based on a capital increase approved in '85, and that was, I think, a reflection of some of that kind of thinking, that the private sector should have more emphasis, but now there is a further stage of it. There's a--that kind of thinking has gone much further. We're now talking about--we're not getting into history now; we're talking about the future--we are now discussing another capital increase. And the general view, I think, of--maybe that's a bit strong, but the view of many of our shareholders is that the role of IFC within the Group should be larger because this philosophy is much more accepted.

I think what's been happening is--I don't know whether I'm going off the subject for you, but--what's been happening in the '80s--by the early 1980s I think most of the industrial world had come round to that kind of thinking. You know this--leave aside the British Labor Party--the socialist parties of Europe have really ceased to be socialist. They have become market force parties (?) [*inaudible*] The German socialist party is like that. The French changed while they were in government in the '80s. The Spanish were very much like that, a pragmatic people. And now the British have finally got there. And then you had, you know, [*Ronald*] Reagan and [*Margaret*] Thatcher. They were more ideological than practical, but while--so the industrial world, I think, had moved to that kind of thinking by, say, the mid-'80s; the developing world hadn't moved so far. It was behind in that context. But it has really been very remarkable in the last few years, especially for Latin America. Every government there is privatizing like mad now.

WEBB: I'm Peruvian. I live in Lima still, and I am amazed at the change in general opinion, general public opinion at the more [*inaudible*] level, media, congressmen, and also more generally. Things that no politician would have dared to say even three years ago now are said without any inhibition. You're right. It's really remarkable.

RYRIE: Well, that's very interesting. It's selling off its telephones, I think. That was in the paper yesterday.

WEBB: Yes.

RYRIE: I mean that's unimaginable 10 years ago, 5 years ago!

WEBB: Would you like to rearrange the chairs?

RYRIE: No, the sun is gradually sinking. I suppose I could put the curtains down. It will go down soon.

Well, that's very broad and philosophical. I don't know whether that's--but you were asking me in what context I . . .

WEBB: But it's really an excellent, an interesting way to place the IFC in the Bank with this whole question now . . .

KAPUR: I just wonder whether when you are looking back at the Bank [*inaudible*] and I guess still does [*inaudible*] has always [*inaudible*] all of the private sector, the Japanese steel firms in the '50s, and even now I can see some roles which [*inaudible*] by the Bank. How is that sort of division of labor, especially when [*Robert S.*] McNamara came to power . . .

RYRIE: Well, you're onto a very important sort of part of the story, and I wasn't in the Bank when McNamara made these changes, and no doubt you will find this all in the documents. But I think he took an important decision which had an effect for a good many years. The Bank began to get into financing industry, whether it was owned by the government or private, in the late '60s. Before that it had been mainly just public sector investment, dams and roads and that. And there was a question whether IFC should do that or whether the Bank should do it. I think the judgment was that IFC was not capable, too small or it was thought it was not the right kind of instrument, and so the Bank set about doing it. This great spate of lending took place through the Development Finance Corporation, Bill Diamond [*inaudible*]*—*you must have spoken to him.

WEBB: He had [*inaudible*] to do with this project.

RYRIE: I know, I know, and I don't know the history of that period in detail at all, but I think it's fairly clear that that involved the Bank in a new way in financing industry, not making much distinction between private and public. And it had the effect--IFC was a little bit marginalized then. The odd thing is Bob McNamara--for whom I have enormous admiration, worked with him--was nevertheless--he didn't support IFC very much. It could have grown faster in the '70s and been the Bank Group's instrument for doing this kind of thing, but it didn't. And I think then when we got to the '80s and these trends came out which were leading the market forces, IFC was a little bit too small and

weak to carry the burden. I think we have made a bit of progress since then, but . . .

WEBB: Just how was the role constrained? Were there lending ceilings, or was there a matter of capital . . .

RYRIE: In the amount of capital. IFC has only ever had 2 capital increases. The original capital of IFC--you will find it all in the records--was 100 million dollars. It remained 100 million dollars until 1977, when it went up an enormous amount percentage wise. It went up to--what was it; 650, yes, that's right--it went up to 650 million dollars, and then it grew fairly fast for awhile until about '77 through the mid-'80s, and then it was doubled to 1.3 where it still is--the authorized capital.

[Either I have misunderstood some amounts and dates, or there is a bit of redundancy here. If it went up rapidly from \$650 million, how could it then double to \$1.3 billion. I listened to this several times and am puzzled.--jgb]

But, you see, during the period when this DFC lending started and all the financing of industry, IFC was a little thing. Of course, 100 million was more than it is now, but still it was rather small. You would have had to do something to build this thing up. You would have had to get capital for it, give it additional staff. He just didn't do those things. He chose to do that expansion in the Bank instead.

WEBB: Why hasn't [*inaudible*].

RYRIE: Why hasn't it been done?

WEBB: Yeah.

RYRIE: Oh, but it has quite a lot. The Bank--it's all relative. The Bank, well, the position right now is that the Bank is lending, still lending a lot to the private sector, but by its own methods. The Bank has gotten guarantees so they do it through governments, through official agencies, not direct. That's an important difference in technique. That's how they do it. We are--you know this--we are not allowed to take government guarantees. We have to take a commercial risk; we make ourselves a market operator, take commercial market risks. But we--the Bank's, I think, the volume of lending the Bank is doing to industry is a bit larger than ours still. It's nearly 2 billion dollars a year. We are investing now about 1.5 billion a year, but then we are much more catalytic than the Bank. Our share of the investments we support has been sort of one-sixth or one-seventh--or even 10 to 20 percent--whereas the Bank's is much larger, so that IFC is different also in mobilizing more funding from the private markets, which is what is a technique that I think is relevant in these times.

So the role of IFC has--although the amount of dollars for our own account that we put out is a little bit less than the Bank's, the impact of IFC is fairly large. I mean, we financed projects last year costing a total of nearly 10 billion. Now, I wouldn't say that not one of those projects at all wouldn't have happened without us. Some of them would,

some of them absolutely would have happened without us. But, no, I still think that if those decisions hadn't been taken by McNamara in the late '60s, early '70s, our role might have been larger than it is now. But the balance has been corrected a bit.

WEBB: How would you distribute emphasis between the financing role, including helping to organize capital from other sources, and *[inaudible]* to do with the quality of investments *[inaudible]*

RYRIE: Well, the essence of the financing role is that it's risk-taking, so that links you straight into the quality; you have to protect your bottom line. And also that we are trying to operate at the margin; we're trying to support investments which need us, which wouldn't happen without us. This means you're in risky areas. Of course, the countries you're work in are risky, most of them. That means that compared with any private financier like a commercial bank, we do much more careful appraisal work, which is costlier. Our costs per dollar we put out are rather high, but that's always been the IFC technique. I mean, we're responsive. We don't--we very seldom initiate projects. It's not our idea to make this investment; it's someone else's idea. The exception is the financial sector. In the financial sector we help to initiate it and design it--the company--but mostly we're financing other people's ideas and looking at it very critically, very carefully, making sometimes quite an important contribution in the technologies *[inaudible]* getting the market right, the financial design, the structure of the thing--not always successfully, but more often successfully than not.

It's a very interesting concept, is the IFC, that we are, I like to say, the aim is development; the method is to be a business. The ultimate objective is not profit, but it has to be an objective--not because we want huge profits for ourselves but because it's the test of objective efficiency and success.

WEBB: If the objective were just profits, what would you do differently--spend less on appraisals?

RYRIE: We wouldn't waste our time in Africa. We wouldn't make any investments under, say, 5 million dollars. We make lots of rather small ones which in terms of staff time are very expensive. We would go for the more profitable things. We would compete hard for business and, whereas generally speaking if a private sector company could do without us, we would back away. So we are quite profitable, but we could be a lot more so if our hands weren't tied by our--I don't know--there is some reluctance about that--of course our hands are tied by our role of trying to do things in difficult countries.

WEBB: What does the IFC--what other banks in the world is the IFC most like?

RYRIE: It's very hard to identify them. Of course, there are some sort of mini-IFC organizations in some national governments--especially the British, French, and German and the Dutch for awhile--IFC-like private-sector-oriented development institutions; but otherwise in the real private sector we are a bit like an investment bank, but the

comparison doesn't go too far. First of all, I suppose we're a kind of combination of a commercial bank and an investment bank. We do make loans and equity investments of our own rather than mobilizing in the market as the investment banks [*inaudible*] But then, as I said earlier, compared with the commercial banks we go to far more pains to make sure the project is right, and we lend on very different terms from a commercial bank. They are market terms, but the commercial bank would usually lend for a project for maybe 5 years. We will lend for 12 or 14 years, giving them a long grace period depending on the need of the--quite often our role is to provide longer-term financing than the company can get anywhere else when they need it for the project. I think--no doubt everybody has said this about themselves, but we are sort of unique, except that we're being imitated now. The IDB [*Inter-American Development Bank*] has set up, [*inaudible*] an Asian bank is trying to, but I think we are a sort of prototype.

KAPUR: [*inaudible*] know how, in the sense of developing a capital market [*inaudible*] How do you see it, an activity like this, I mean [*inaudible*] doing rather similar things?

RYRIE: Within the World Bank Group there is a little bit of overlap. The Bank likes to tell us that they are supposed to deal with the private sector, too, so they are. And we deal with the private sector and MIGA [*Multilateral Investment Guarantee Agency*] deals with the private sector. So we just have to kind of work it out sensibly so that we don't tread on each others' toes too much. We do tread on toes--it isn't always . . .

Well, one particular solution that we had--FIAS [*Foreign Investment Advisory Services*] was created by IFC. MIGA appeared and said this was really their job, and we said, "Well, you know, it's going rather well. It's going well partly because it's in IFC." But then there were compromises. We just had to have a joint management, which is a bit of a messy arrangement, but I suppose the general point is that, yes, there is a little bit of--between the various parts of the World Bank Group--there is a little bit of fuzziness about who should do what, which goes back to, I think, something earlier, something we were talking about . . .

WEBB: Do the various piggybacks, to any important extent, how the Bank [*inaudible*] in other words, being you are a part of the World Bank, does that help the IFC in important ways? Does it help in raising money?

RYRIE: Yes, yes, of course it does. We have to be very clear about how, and it is partly just a matter of status since we are a part of the World Bank Group. It gives us some very considerable strengths. We have in practice a bit of sort of preferred creditor status which--when monies due to us are being paid by central banks and they're short of foreign exchange, we tend to get paid. Now, we're not like the Bank which has a guarantee. There's nothing written down; it's quite informal, but in practice we get that sort of treatment mostly, and that's just I think for being part of the World Bank family.

WEBB: What about Peru?

RYRIE: Peru has paid us throughout all this time.

WEBB: And Iran(?)?

RYRIE: Paid IFC when it was not even paying the Bank.

WEBB: Maurice Strong approved it, did he?

RYRIE: Not many people know that; you're well informed.

WEBB: That's what I had heard.

RYRIE: Yeah. Well, other ways, too. We have our own Triple A rating, which is quite recent in our history. It only happened in 1988 or '89--'89, I suppose—because, well, that's another change. Until 1985--well, I have to go back one stage further. Our financing primarily consists of capital subscribed by members plus the profits we make plus borrowing, and borrowing until 1985 was all entirely borrowing from the Bank. The Bank on-lent money to us at cost.

WEBB: 'Til '85?

RYRIE: 'Til '85. Well, one of the very first things I did when I came here was to start a program of borrowing on the market. And we started borrowing on the market in a small way then and we've built it up. We now borrow 80% of our borrowed funds on the market, and for that purpose we've got ourselves our own Triple A rating. (I still haven't answered your earlier question whether it is piggybacking on the Bank.) Now that's an independent rating that's based on our own financial records and our own financial policies, but, although it's not stated in writing anywhere, I don't have any doubt that its strength has been assisted by the fact that we are a part of the Bank. Well, it--or maybe it's more strengthened and assisted by the fact that we are owned by governments, and it's the same group of governments that own the World Bank. We're not a subsidiary of the Bank. The Bank doesn't own our capital. Our capital is owned, sort of empowered by the same, mostly the same governments, but in some way, indefinable, the link with the Bank--the Bank does not stand behind our bonds. That's clearly stated in all of them. They are not an obligation of the Bank. But I don't know; I think that the market picks up that . . .

WEBB: You have your own treasurer now.

RYRIE: Yes. Oh, I mean we use Bank services. For example, our liquidity is managed for us by the Bank [*inaudible*] We could change that any time we liked, but it's just a very efficient bunch of people at the Bank [*inaudible*] They give us good service. We get a lot of service from the Bank in the way of, you know, economic analysis of a country, commodity price projections--always wrong, but still whose are better?

WEBB: Project expertise?

RYRIE: Project expertise? No. That's where we have . . .

WEBB: You don't often consult the *[inaudible]* specialists?

RYRIE: Hardly ever. No, we have our own for that kind of thing. The Bank is . . .

WEBB: Is it the other way around, too?

RYRIE: Not too much consultation there, because the Bank has its own people who they use for certain big large projects. There's a little bit of consultation, but I don't come across it very much. I think that we--that's, I think, where our strengths lie.

KAPUR: *[inaudible]* specialists *[inaudible]* where chemicals *[inaudible]* they have a couple of and you have a couple of specialized *[inaudible]* There's no give and take *[inaudible]*

RYRIE: I don't know enough about what goes on. I haven't come across any talk of consulting the Bank on such things. We have our own engineers. We have a fairly small staff, 45 people or something, who cover all technical fields. If they haven't got enough expertise, we hire them, we hire those people. Our technical staff are not sort of narrow technical specialists. They are more what we call "industry experts," people who have experience in dealing with certain industries from a technical point of view. They mostly are--they are very much the oldest group; they're mostly in their 50s. They all have experience in running industries. So, I mean, they're not just technical people; they're much, much more than that. And if we really need, you know, an expert opinion on whether this technology is good and we haven't got it here, then we bring in consultants, we'll use consultants; we use consultants quite a lot. I don't think the Bank has got much of that kind of precise or narrow specialists, either.

WEBB: You mean it's a more managerial expertise rather than technological?

RYRIE: Well, it's technologically based. These chaps are engineers, but they've mostly had some experience in running companies. And they know a bit about what you can market and what you can't market, where the risks and dangers are, what can really go wrong. In some areas we've lost some of our best people just through retirement. I think that we had truly one of the best cement engineers in the world--had two of them, in fact, both Egyptians--and their advice would be very, very highly . . . I'm just singing the praises of IFC now; I'm not really helping you with history.

WEBB: No, you're helping very much.

RYRIE: I suppose to write the history you need to understand the role, the nature of the thing, but we're talking about the here and now and not about the past.

WEBB: Going back, was there any ever initiative coming from IFC or some Board

member for a different role for IFC, a bigger role or a changed role, something that was proposed that didn't get approved?

RYRIE: Not formally, no. There have been—you know, occasionally people will express off-the-cuff opinions like, for example, people have suggested that we should do, have a bigger role in helping governments to devise strategies to develop the private sector. We've never really done that because advising governments is a limited part of our activity. We are very transactional, operational people, with some exceptions, the areas where we have advised governments: capital market development, where we have some specialized knowledge; foreign investment through FIAs as you mentioned; and sometimes, although this gets very much--does overlap with the Bank—sometimes on the privatization of *[inaudible]* We've been advising the Polish government for some time on how they should get *[inaudible]*. But it's more the first two; and FIAs is now a joint venture with MIGA, so within IFC itself by far the most important area of advice to governments is capital markets, where I think we do have leading expertise in the Bank Group. The Bank has been building up financial expertise, and financial missions go to the country and look at the financial sector. The Bank tends to deal with the banking sector. We tend to deal with the securities markets. That's the breakdown. A mission will go to a country consisting of 15 Bank people and 1 IFC person; that's typical. We are very much slimmer and perhaps we write up(?) a little more in relation to our numbers than they do, but you can see some of these *[inaudible]*

WEBB: You have a lot more people coming here, too, don't you, borrowers, for example, than the World Bank?

RYRIE: You think so?

WEBB: *[inaudible]* the entrepreneurs who are proposing certain investments deal a lot with the IFC staff right here in Washington, development *[inaudible]* Does that not happen?

RYRIE: That does happen a great deal. I'm only saying I don't know whether it's more than with the Bank, and the Bank is supposed to talk to governments, and I suppose they tend to talk to them more out there actually. I mean, I don't know whether that's a strength. I think we ought to be more decentralized *[inaudible]* in that way. Both institutions are very, very Washington-centered.

WEBB: You don't have resident missions?

RYRIE: Yeah, we do, but they're very small. They're usually one-man offices. We have about 15 or 16 of them now, but they tend to do contact promotion work, a certain amount of supervision of old investments, so on. They don't do the work of processing new investments *[inaudible]* And there's a big question hanging around whether we shouldn't create much more substantial offices to deal with--multi-disciplinary offices and give them some delegated authority like . . . No private organizations doing anything like our business would keep on operating *[inaudible]* So that's a question for the future.

KAPUR: *[inaudible]* you were on the Board *[inaudible]* of the IMF *[International Monetary Fund]*. I have 2 questions. How do you see the two Boards, what is the difference, and second is that now that you're on the other side of the, of the management, and you see the Bank's Board, (1) have things changed in the international management *[inaudible]* and if so, is it important?

RYRIE: On the first question, I could talk about that at great length, but I'll make it brief. There is a considerable difference between the Bank and the Fund. The Fund Board is more powerful. The Fund Board really does make decisions. The Managing Director sees himself as a member of the Board and rather distinct from the staff, whereas the President of the Bank views himself traditionally as predominantly head of the staff.

And, you know, the terms of a standby arrangement, the terms of some *[inaudible]* with a country can be changed in the IMF Board. But there are real discussions taking place. The Bank Board, I mean, when my days on both Boards *[inaudible]* much more *[inaudible]* differences. The Executive Director representing the country speaks for his country when his country is being discussed. I was the British ED when we were borrowing a huge amount of money from the Fund in 1976, and I had a really rather difficult role to play--presenting the case. I and the staff together would be presenting the case. The convention in the Bank Board is that the member representing the country where there's a project being discussed shouldn't speak because of biases and so on. He always organizes other people to speak for him.

But it all goes back to *[John J.]* McCloy, who sort of *[inaudible]* the Bank, who insisted he would only take it if he really was given a free hand with the Board. And what's more, the Bank in its early days was just a project machine. The Board was not really very interested in much to do with projects, so leave it to the management. So the Bank Board became an institution to discuss projects and was treated with a certain amount of tolerance by the management, but it was really the President and his staff who were running things from a much less powerful position.

Now things--under McNamara, well, McNamara was a very powerful president. He always dominated the Board. When I was on the Board I used to pursue whatever objectives I had not really in the Board but by going to see McNamara because indeed *[inaudible]* not in the Board. Now I have to be careful what I say about after that, but the two subsequent presidents--not for quotation, please--have not dominated the Board like McNamara did. And the Board has become more influential, but then there has also been another change taking place. The Bank is no longer just a project machine. It's getting much more into policy matters, so there is reason for the Board to engage in these things.

In both institutions it has become desperately time-consuming. Both *[Michel]* Camdessus and *[Barber]* Conable spend hours sitting with their boards. I spent *[inaudible]* on our board, but even, I suppose, even now--although I haven't been in the Fund Board for many years--but I suppose the difference has narrowed a bit. The Bank Board has become a little more influential, but I suppose the Fund Board is probably still

more powerful.

WEBB: How do you see the evolution of the Bank [*inaudible*] in the direction of much more policy and . . .

(end of first side of tape--second side blank)

[End Tape 1, Side A]

[End of Interview]