THE WORLD BANK GROUP/HISTORIAN'S OFFICE

ORAL HISTORY PROGRAM

Transcript of interview with

IBRAHIM F.I. SHIHATA

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By: William Becker & David Milobsky
Q: I'm William Becker with George Washington University and the Business History Group.
Q: I'm Jochen Kraske, the Bank's historian.
Q: I am David Milobsky, the assistant to the historian.
A: I'm Ibrahim Shihata, General Counsel at the Bank.
Q: Mr. Shihata, it's a pleasure to meet you and we're pleased to have the opportunity to talk to you today.
A: Thank you.
Q: I wonder if we could begin by asking you to talk a little bit about your educational background.
A: I received my first law degree from Cairo University in 1957; then a diploma in Public Law from Cairo University in '58; a diploma in Private Law from Cairo University in '59; then a Master's in Law from Harvard Law School in '62; and an SJD, Doctorate of Juridical Science, Harvard Law School, '64. I also have a seminar diploma from the Hague Academy of International Law.
Q: What influenced your decision to pursue a career in the law?
A: It has been in my mind since I was a child. I've always wanted to be in the international legal area. At the age of 10, I wrote in a school essay that I wanted to be an international judge so that I could make peace in the world.
I remember that essay because the teacher laughed so loud when he read it. Now, of course, part of my job here is heading the International Center for Settlement of Investment Disputes (ICSID), which allows me to appoint international judges every now and then.

Q: We'd like to ask you about some of your experiences before coming to the Bank. You had a distinguished career before arriving here. One of your first experiences was your work with the Council of State of the Egyptian Government from 1957 to 1960. What were your responsibilities there?

A: The State Council or the Conseil d'Etat is a system borrowed from France. It advises the Government on legal matters and, runs a set of administrative courts which resolve disputes between the government and public entities on the one hand, and their personnel and third parties such as contractors, suppliers, etc., on the other hand. I worked in the Legal Advisor's Office, which was divided by Ministry. Each Ministry had a section in the Conseil d'Etat which provided it with legal advice. At that time, the Council appointed the first five or six top law graduates of the university. I happened to be the top graduate in '57, so I was appointed, even though my intention at the time was to pursue post-graduate studies and a career in academia. However, since I was appointed in the first month after
graduation, I thought that I'd work at the Council until I got a university position. As luck would have it, I ended up enjoying my work at the Council immensely. The university, in comparison, appeared less interesting, and since I could work and pursue my post-graduate studies at the same time, I decided to remain at the Council. During my first year at the Council, I worked in the Legal Advisor's Office for two Ministries. Following this, I was chosen to work in the Office of the President of the Conseil d'Etat, the so-called Technical Bureau. After one year there, I was chosen to work in the Technical Bureau of the President of the Republic.

At that time, 1959 (Egypt and Syria became one country in '58), the President had offices in Cairo and Damascus, and I was the most junior member of the office in Damascus. While in Damascus, I applied to Harvard Law School. I went directly from Damascus to Cambridge, Mass. in September, 1960.

After my training at Harvard, I returned immediately to Cairo. Interestingly, just as I finished my doctorate at Harvard in '64, I received a letter from the then General Counsel of the Bank, Mr. Broches. Mr. Broches, at that time, was working on the establishment of the International Center for the Settlement of Investment Disputes.

One of my professors gave him my name, and he wrote me a
letter asking if I would be interested in joining the Bank to work for ICSID. I declined because I had previously made a commitment to teach at Ain-Shams University in Cairo. At that time, I was planning to make a career in academia. However, it didn't work out that way because, after two years of teaching, a friend of mine at Harvard who was a student working on his Master's in Political Science, Abdul-Latif Al-Hamed, was appointed in 1962 Deputy Head of the Kuwait Fund for Economic Development and became its Director-General in 1963.

The Kuwait Fund was meant to be Kuwait's aid agency to other Arab countries. At that time, it was small and provided development finance only to Arab countries. In 1965, Al-Hamed contacted me and asked me to join his staff after we met again in a conference of Arab economists. I was interested in international development issues (earlier that year, I had written a paper on the legal aspects of Arab economic cooperation), so I agreed to a one-year appointment with the Kuwait Fund. That's how I ended up in Kuwait in September '66.

Q: What were your responsibilities there?
A: I was the Legal Advisor. They had two Legal Advisors. Before I arrived, they had one Legal Advisor who had come from the World Bank, an Egyptian, El-Fishawi. He spent four
years at the Kuwait Fund and had to return to the Bank, so they appointed me and a lawyer from Sudan to replace him. I had originally planned to spend only one year in Kuwait. However, I stayed for four years because it was more interesting than I thought earlier. After four years, I returned to the university in Egypt.

Q: What were some of the legal issues that you had to deal with?

A: All the responsibilities of a legal counsel of a development finance organization from personnel matters to international law issues. In some ways, I had more responsibility in Kuwait than here in the World Bank because the institution was quite small, and the role of the lawyer was much greater. For instance, no mission would leave the Fund without the Legal Advisor, and, quite often, the Legal Advisor would be the spokesman for the mission. He would be the one who led negotiations. That, of course, helped me a great deal in developing my own negotiating abilities.

I was also responsible for two important initiatives. One was the establishment of a regional fund, the Arab Fund for Economic and Social Development. Following the defeat of the Arab countries in the '67 war, there was a meeting of the heads of Arab countries in Khartoum, Sudan, and they decided, on the suggestion of Kuwait, to establish a regional Arab
fund to promote economic development. Many had cited the lack of development as one of the main reasons for defeat; the Arab Fund was intended to help address this shortcoming. The agreement establishing the Arab Fund was, I would say, my first work on a regional convention.

The other initiative for which I was responsible, was the establishment of an Arab agency to insure investment against non-commercial risks. Such an agency seemed to be necessary in the late '60s because the division between rich and poor Arab countries was growing wider and wider. Some oil-exporters became much richer, while other countries remained poor. It made a lot of sense for the oil-producers to invest in the neighboring territories, but there were always fears of non-commercial risks, especially since, at that time, nationalization, socialism, etc. were very much in vogue. The Kuwait Fund convened a meeting in Kuwait in 1966, which was attended by Ministers of Industry and other officials. They agreed in principle to the Fund's proposal to devise a code for inter-Arab investment, and establish a center (like ICSID) for the settlement of inter-Arab investment disputes, and a corporation to issue guarantees against non-commercial risks. Of course, we benefitted from the work of the World Bank during this period. The Bank had just established ICSID and was working on establishing an
agency for the guarantee of foreign investments against non-commercial risks.

Historically, this is interesting because that agency (MIGA) became a reality after I joined the Bank. However, while in Kuwait, I worked on a smaller enterprise for the same purpose, a regional agency for the Arab countries. The agreement establishing this Arab agency was signed in 1971 and it became operational in 1974.

Q: So you stayed in Kuwait through 1976?

Q: Oh, I see. And then--
A: I went back to teaching. I became an associate professor. Benefitting from my experiences, I taught International Economic Law. I taught a new course on that subject for graduate students. After two years of doing that, I was asked to go to Kuwait to review the preparatory work on launching the Arab Fund. At that time, Al-Hamed tried to persuade me to return and I returned to Kuwait in '72. I stayed there for four years. This was during the "oil crisis" period.

Suddenly, Kuwait became more important, both regionally and internationally. It became very active in the IDA negotiations, in World Bank activities, and in the establishment of the Development Committee in '74. I was a
constant member of the Kuwaiti delegation to the World Bank annual meetings, so I would participate in activities of that type. I was also active in the establishment of all sorts of institutions in the region, like the Arab Bank for Economic Development in Africa—I remember writing the first draft agreement establishing that; and the Arab Organization for Agricultural Development in Khartoum. I represented Kuwait in the negotiations leading to the establishment of the International Fund for Agricultural Development (IFAD), where I ended up being the chairman of the committee which wrote the charter for that Fund. Furthermore, I also represented Kuwait in the negotiations for establishing the OPEC Fund, where I was appointed as the first head of that organization in 1976.

Q: Were you involved at all in the Suez Canal negotiations?
A: No. I was only indirectly involved, because the Suez Canal reopening was co-financed by the World Bank and the Kuwait Fund. The negotiations were completed by the time I arrived, but, I was there when the loan agreement took effect and during the implementation.

Q: This was after the '67 war?
A: Right. I visited the Suez Canal Authority a number of times on that count, but I was not directly involved. I did become involved with the co-financing with the Bank of a
number of projects, like the Ar Rahad project in Sudan, a big irrigation project. A more interesting one is the potassium project in Jordan, where we were here trying to finalize everything. Both the IBRD and IFC were involved. W. R. Grace, an American company, was to be the manager and the marketer of the project. We were sitting in the Bank's offices on June 3, 1967, when a gentleman from W. R. Grace said, "Sorry, we can't go on. There will be war in a few days." We told him, No, this is just propaganda and unless Israel initiates an attack, there cannot be war. He said, "No. There will be war." He left, and the whole thing collapsed. In fact, I left Washington on June 4, and while I was in the air, Israel attacked and the war started.

Q: When you returned to the Kuwait Fund, you mentioned that you arrived along with the influx of oil dollars. I was just curious if you noticed any changes in the organization after your return. Did the structure change? Did the outlook change?

A: The Kuwait Fund changed financially and geographically. Until 1974, it was an agency for financing development in Arab countries. In '74, a new law was issued increasing its capital from 200 million Kuwaiti dinars—the Kuwaiti dinar at that time was 2.8 dollars—to one billion Kuwaiti dinars, and increasing its scope from Arab countries to all developing
countries. Since that time, its capital has doubled, and the geographic scope includes also southern European and the new east European countries.

Meanwhile, the Saudi Fund was established in '74; the Iraqi Fund was established in '74; and the Arab Fund's capital was increased. The Kuwait Fund was involved, either as an advisor or otherwise, in all these activities. In addition, as I mentioned, all sorts of regional and international initiatives were taken where funding from OPEC sources was needed.

Q: Who was involved in getting you to move from the Kuwait Fund to the OPEC Fund?
A: As I said, I was representing Kuwait in the negotiations. Arab countries having their own assistance funds were not very enthusiastic about the establishment of the OPEC Fund. Iran and Venezuela, important members of OPEC which did not have national Funds for foreign assistance, were pushing hard for a common fund. Iran came with a proposal, Venezuela with a detailed written proposal, and Saudi Arabia, finding that the trend was too strong, said, "Fine. Let's have a one-year facility, to be administered by the World Bank." The Saudis always had great confidence in the World Bank.

Kuwait really had no particular position except that, it
wanted to be sure that the OPEC initiative would be technically sound so that it wouldn't fall apart. In order to balance all these different positions, I came up with a proposal to establish a facility to be funded by each country through an agency designated by that country. Each agency, would keep the contribution of the country within its own accounts, and the OPEC facility would just be the coordinator. It was a simple arrangement which gave a prominent role for each country, and therefore was easier to accept by the Arab members.

Since I took a leading role in the negotiations, Iran, oddly enough, suggested my name as the first head of the facility, and the others agreed.

I headed the agency during a critical period in OPEC's history. There was mounting pressure from developed and developing countries on OPEC countries to give more money to other developing countries.

As I said, the Arab countries were doing that through their own initiatives, their own national Funds, etc., and in '74 they opened these Funds for all developing countries, not just the Arab ones, so they did not feel they had to do anything more. Venezuela was concerned about pressure from its neighbors in Latin America, while Iran wanted to play a more prominent international role. These factors led them to
propose the formation of the OPEC Fund. There was an attempt to do something within the World Bank, that didn't work, so they suggested that OPEC take the initiative.

The OPEC Fund also played the other useful role of coordinating the position of these countries. For instance, in IFAD, for the first time, an international financial institution was created where two-thirds of the votes were in the hands of developing countries, and half of that, that's one-third of the votes, in the hands of OPEC countries. You couldn't have gotten that without a very good negotiating team and power. The main source of this power was the fact that, OPEC countries were able to contribute more than 40% of the resources through the OPEC Fund. The Western countries were not keen to establish IFAD. A conference was held in Rome, the World Food Conference, which resolved that there should be a Fund for Agricultural Development to be financed by OECD and OPEC countries.

While I was in Vienna, I remained as Kuwait's representative on the board of IFAD. OPEC countries had six seats there (and six alternates). Since I was heading the OPEC Fund, I was asked to coordinate the position of OPEC countries within IFAD. I hate to say this, but, I was sitting there virtually with one-third of the votes, which was a very prominent position.
Q: This seems to be moving you toward operational issues and away from legal issues.
A: Even in the Kuwait Fund, I was not limited to legal affairs. Because of my close relationship with Al-Hamed and the small number of the people in the Kuwait Fund, I was exposed to all sorts of issues. I represented Kuwait at many meetings. I twice accompanied Kuwait's foreign minister to the meeting of Non-Aligned Countries. The foreign minister asked me to sit for him in the meetings on several occasions.

The OPEC Fund experience was a wide-ranging one. However, I have never forgotten that I am a lawyer. While in the OPEC Fund, I was deeply involved in legal work. I appointed an assistant, but I did a great deal of the technical legal work myself, mainly out of concern for my own profession. I don't consider management a profession.

Q: How, then, did you come to the World Bank in 1983?
A: It started in '78, when I received a call from someone in the Bank who said that Mr. McNamara wanted me to come to the Bank as Deputy General Counsel. At that time, I had an encounter with McNamara (perhaps in '77 or '78) where someone told him that I was a great critic of the World Bank. He started shouting at me and I admitted to criticizing the Bank and offered to tell him why. And at the end of that meeting, I agreed to send him a letter detailing my proposals for
improving the World Bank's legal work. I later received a
detailed reply from Mr. Broches. It was the typical defense
of what was going on.

In '78, someone else from the World Bank called. It was
a strange call, because it wasn't McNamara. It was someone
saying that McNamara was thinking of asking me to serve as
Deputy General Counsel for a few months before becoming the
General Counsel. I told her that if McNamara was interested,
then he should call me. I was not really interested and
McNamara never called, so nothing happened.

Four years later, I met Mr. Clausen, through the
Tidewater meetings and he asked me to join the Bank. This
was in '82. I had just been reelected to another five-year
term in the OPEC Fund, so I declined Clausen's offer.
Clausen then talked, independently, to the Finance Ministers
of Saudi Arabia and Kuwait. Al-Hamed was then the Minister
of Finance in Kuwait, and he mentioned to me that there has
always been some concern about the fact that the World Bank
did not have an Arab citizen in its management corps.

Apparently, Clausen felt that if there had to be an Arab
in upper management, then I should be the one. He talked to
the Ministers, and they felt that I should take the job.
After all, they had been asking for an opportunity like this
one for quite some time. They talked to me about it, but I
was reluctant to leave the OPEC Fund. The Fund was very successful, and I was clearly in charge. The board would meet three times a year, each time for one day. All the real power lay in the hands of the Director General. In short, I was quite satisfied.

I wasn't very interested in a job at the Bank, but I couldn't ignore the wishes of those people who had elected me in the OPEC Fund. I agreed to accept Clausen's offer, but I wouldn't leave until they had found a successor. Clausen didn't have a problem with this, even after I told him that the selection process could take up to one year. That really made it impossible for me to say no. To keep a position open for a year in order to get a person was just too flattering. Clausen appointed Mr. Scott as Acting General Counsel, from September '82 until I came on August 1, 1983.

Q: We want to ask about the issues that you had to deal with when you first came here, but, briefly, could you tell us about the criticisms you had made to McNamara in that letter about the World Bank?

A: It is a typical criticism of the Bank which a lot of people are still making today. I told him that the Bank was drowning in paperwork. The loan agreements at that time were thick documents that no one in the developing countries could reasonably be expected to understand. I questioned this. I
suggested that the Bank have a framework agreement and then have a two- to five-page agreement dealing with each specific project. The goal was to end up with broad general conditions and slim loan agreements. I felt that a situation like that would make it easier for the countries' parliaments to approve the agreements. There wasn't any need for the Bank to do things that the government should do for themselves. The OPEC and Kuwait funds, on the other hand, handled these matters quite differently.

In the Kuwait Fund, a mission would go to appraise the project on the ground. We would stay two to three weeks, appraise the project, negotiate it, and sign the initial understanding. After our return, we would then spend another three or four weeks writing the fancy report to the Board and preparing the loan agreement. After the Board approved the loan, someone from the borrowing country was invited to finalize it. It was very simple. We didn't go through all the hassle that went on in the Bank.

Of course, the Bank can always argue that it is more sophisticated, more technical, etc. Experience, however, shows that the difference is not worth it because sometimes you spend four years working on a project, and then in real life it is very different. In short, I felt I had made a good argument for simplifying loan procedures, acting more
quickly, and doing more work in the field.

Q: If you compared the Bank with the Kuwait Fund, or the OPEC Fund today, how would you describe their differences?
A: It was entirely a matter of attitude. The Bank is a very difficult place to change. It's a heavy, heavy machine, so adjusting it is not easy, especially for someone coming from the outside. That's why every President comes with a lot of ideas and leaves with the ideas. However, it is changing, slowly but surely. In the coming period, I believe that you will see more changes. Preston is different. He is more determined. He put a large number of younger people with no allegiance to inherited ideas in top positions, so you are likely to find more change now. Whether it will be for the better is yet to be seen, but change is surely coming.

Q: When you arrived in August of '83, what did you see as the key challenges of this new position?
A: First, I discovered that the Legal Department was very demoralized. It was marginalized. My predecessor was practically asked to resign. Then, there was an Acting General Counsel for a year, whom nobody saw as a real equal since he was not a Vice President. Even spatially, the Department was pushed outside to a separate building. Morale within the Department was extremely low. When I first
arrived, I asked Mr. Paijmans, the Vice President for Personnel and Administration, to move the Department back to a more central location.

Clausen, meanwhile, paid a lot of attention to the General Counsel's role in the Bank. In fact, a few months after I arrived he offered to change my title to Senior Vice President, and asked me to supervise the work of the Vice President and Secretary in addition to my work. I respectfully declined his offer. I did not think it was appropriate for the General Counsel to have an administrative job of this type.

When Mr. Clausen left and Mr. Conable came, he promoted me to the level of Senior Vice President. Grade 30, that is. Furthermore, he suggested, in the reorganization of '87, that I head the Legal, Secretary and Administration and Personnel Departments. Conable wanted four Senior Vice Presidents, one Operations, one Policy, one Finance, and one everything else. In effect, he asked me to be that 'everything else.' Again, I told him that it was not right; that the General Counsel should act as an independent legal authority. If he appeared to be part of the day-to-day management, his credibility as the Legal Advisor to the Board would be greatly diminished. Conable accepted that.

One of my main concerns was to place the Legal
Department at the center, where it belonged. It is the only Department in the Bank which sees everything that the Bank does. The rest were either geographically focused on the regions, or sectorally focused. The Legal Department, on the other hand, deals with everything, whether it is borrowing, lending, administration, personnel, or other matters. It can act as an independent advisor, free from the constraints of regional or sectoral concerns.

Q: Were there particular issues that you had to deal with aside from the morale in the Department?

A: One big issue which remained unresolved since the abolition of the gold dollar was the issue of the standard of value of the Bank's capital. In December 1983, I submitted to the Board a detailed legal opinion on that issue which led to the resolution of the problem. This was the first in a series of detailed legal opinions which characterized my role in the Bank and came to be relied upon as the basis for policy decisions. Examples include, the legal opinion on the Bank's lending limit (which preceded the Bank's issuance of guarantees in 1984), on the authorized purposes of Bank loans (which preceded the Bank's lending for debt and debt service reduction), on governance issues (which preceded the Bank's open involvement in this field), etc.

Aside from the Legal Work per se, the first other big
assignment was MIGA. When I joined in '83 the Bank was about to permanently shelve the idea of establishing an international institution for investment guarantees. They tried it in the Sixties, but it didn't work. In the early eighties, Clausen threw up his hands in frustration. He thought of scrapping the proposal entirely, but I suggested that they hand it over to me. I only asked that no one interfere with my work on the issue. Clausen had no problem with that since, he was told MIGA was a dead horse anyway.

I wrote a paper to the Board suggesting that we revive the effort, and only one out of 22 members supported my proposal. Two years later, that same Board unanimously approved the MIGA Convention. It was a dramatic turn-around. I was determined to get it done. It was a simple matter of listening to people's concerns and tailoring the proposal to meet those concerns.

Q: What were some of the concerns?
A: Many developed countries had their own national agencies. They didn't see the need to create another one. They relied on the advice of their national agencies. The bureaucrats giving that advice saw MIGA as a competitor, so there was no enthusiasm on their part. On the part of developing countries, support was even weaker. They couldn't see a beneficial role of MIGA for them. On the contrary,
they saw it as an instrument to strengthen the foreign investors' position against them.

I, however, presented a new argument in favor of MIGA. In the wake of the Debt Crisis, developing countries could no longer rely on commercial loans. The only potential for a reasonable increase of private flows was direct investment and portfolio investment. These investments would not come under the current conditions without some guarantee. MIGA would help in providing such guarantees, for funds which did not increase the developing countries' debt.

We made it very clear to the developed countries that MIGA was intended to complement, not compete with, their national agencies. I pointed out to them the fact that MIGA would help to give the capital of their national agencies more leverage. For the same amount of money these agencies could cover many more investments, so MIGA represented a benefit for them rather than a loss. A detailed draft convention was prepared. It reflected in-depth technical work which attempted to balance the different interests involved. Then we went through regional consultations. I visited some countries in Latin America, Southeast Asia and the Middle East, and then I chaired 30 sessions of the "Committee of the Whole," an informal meeting of all the Board members. Eventually, we reached a consensus.
Q: Has MIGA lived up to your expectations?
A: MIGA's main problem today is that it has committed all of its capital and is about to reach the limit of its guarantee capacity authorized by its Board. It needs an increase badly. Otherwise, it has worked well.

Q: What about its impact on ICSID?
A: Minimal. It did create more work for the ICSID staff because, quite often, private sector clients ask MIGA to review investment laws of countries, or give advice on how to settle investment disputes. Since the real expertise on these matters is the ICSID staff, they refer them to ICSID.

Q: In your early years as General Counsel, you started dealing with the office itself, and then MIGA. Did you ever get to look at the lending instruments?
A: Of course. In 1984, I introduced changes in the standard general conditions and loan agreements which were approved by the Board. The purpose was to simplify these documents and to state clearly in very loan agreement the borrower's commitment to the objective of the project. (This idea received much attention later on as the Bank became more concerned with the "ownership" of projects by its borrowers.) In May 1984, the Bank issued its first guarantee and a new instrument (the guarantee agreement) was introduced, even though the concept has been emphasized in the Bank's Articles
from the beginning. This led in time to the adoption of the ECO program and is now being pursued further under the theme of "streamlining guarantees" in Bank operations. A number of innovative loans which do not finance goods and services were also devised, like the debt and debt service reduction loans and more recently loans which provide contingent financing as a back-up to strengthen the borrower's capital market generally or the initial funding of a specific project from private sources.

In fact, I was involved in all policy issues because these issues were discussed in the Managing Committee of which I was a member. That was during Clausen's term. During Conable's administration, we had the President's Council. Everything of importance would pass through the Council, even the appointments to Director positions. All policy issues were discussed in the Council before they went to the Board. Both Clausen and Conable used to refer to me as "the only one who reads all these lengthy documents." They were probably exaggerating, but I used to read a great deal. That gave me a little advantage.

Q: On the borrowing side, the McNamara years brought a great increase in the instruments available to raise capital for the Bank. Did that present special legal problems that you had to deal with?
A: Not problems as much as issues. Whenever you do something new, you have to establish a sound legal framework for it. The real problem for the legal work here is the very fact that we do not work within a well-defined legal system. In many respects, there is a vacuum which we have to fill, so, quite often, we have to make the rules, not just apply them. If you are a U.S. corporation, you work within a well-defined legal system. However, in the international arena, if you want to do something that was not done before, you have to set the rules.

The Bank was the first institution to perform currency swaps. We were also the first to establish trust funds for developing nations. In both cases there were no legal precedents to guide us, so we had to write our own rules.

Q: Are there any constraints or guidelines that help you to make these rules. Do you rely heavily on economic arguments?

A: We use all the arguments we can muster. If you act like a strict lawyer you will not get very far. You have to be flexible. Take the recent agreement between Israel and the PLO, for example. The Bank committed itself to finance several projects in the Occupied Territories, but our Articles stipulate that Bank funds must be used "exclusively" for the benefit of the members. Also, if a loan by the IBRD is made to an entity other than a government, the Bank must
obtain a guarantee from the member country where the project is located. In other words, the Bank cannot make a loan unless the Occupied Territories are part of a member, a dependent territory of a member, or an associated territory of a member. However, the Bank can't say that the Occupied Territories are part of Israel, nor can it say that they are part of Egypt or Jordan. In order to resolve this dilemma, I proposed that we establish a trust fund for the Occupied Territories. We can't make a loan to the Occupied Territories, but a contribution to a trust fund is a different animal. IDA administers the trust fund and makes disbursements from the fund to the territories. This arrangement is legally sound. The Bank has been making grants in the interest of all its members since the 1960's. We have made a number of grants to IDA, to CGIAR, and to other facilities which are of common interest.

Q: Are you saying that the Articles are flexible, or do you see them as a constraint?

A: Some people in the Bank see them as a constraint. I see them as a useful constraint. If you have a free-for-all, you end up in chaos. That's why countries need constitutions and institutions need articles of agreement. The key is to interpret the Articles so that they serve the common interest, while preserving the integrity of the institution.
They are an important constraint.

I'll give you an example. The Articles have very explicit provisions saying that the Bank shall not interfere in the political affairs of its members. According to the Articles, the Bank can take only economic considerations into account. That the Bank's decisions should be guided by the efficiency of the economy, not by political considerations and influences. Now, there are people both inside and outside the Bank, especially in the U.S., who wish to use the Bank as an instrument of foreign policy. From their viewpoint this is understandable, even if it means forgetting about the Articles. If your foreign policy is to punish countries which do not respect human rights as you perceive them, then the World Bank can be a very useful instrument. I believe that this position is inconsistent with the Articles. I see the Bank as a very good instrument for the promotion of economic human rights, social human rights, cultural human rights, but not of political human rights. I didn't invent these words, they were written when I was a child. The U.S. wanted the Bank to be an institution that was credible in the financial markets, and they reasoned correctly, that it could not have that credibility if it became subject to the vagaries of politics. Insulating the Bank from partisan politics and from the short-term interests of its members,
was a very important pillar on which the institution was
founded. I consider it part of my job to maintain that
distance for the best interests of the institution.
Q: So you have no problem with some of the decisions that
had been taken before you got here, like the question of
program lending, or the transfer of Bank profits to IDA?
A: No. Program lending is allowed under the Articles, but
as an exception. There is a provision in the Articles which
says that the main business of the Bank is to make loans and
guarantees for specific projects. However, it does make
exceptions in special circumstances. From the very
beginning, the U.S. sought an interpretation that allowed the
Bank to make stabilization loans, and loans for other than
specific projects. There is no legal quarrel with that, as
long as it does not become the main business of the Bank.
But that's not to say that the Bank can tell a country to
follow a certain political line. If the Articles have a
provision saying, "Do not interfere in political affairs,"
how can I interpret it to mean "do interfere in political
affairs?"
Q: But, still, subtle changes have obviously taken place.
As you said, there are economic human rights and agency
considerations. Quite often, these concerns are political in
nature.
A: Of course one has to make distinctions. The best example is the paper I wrote to the Board on governance. I argued there that there are many governance issues which have direct economic effects, and that's what the Bank should concentrate on. In doing so, the Bank will be protecting human rights without getting involved in politics. If you advocate the rule of law (good civil service, accountability, transparency in financial transactions), you will be promoting the basis of political human rights. If you give a country money to improve their civil service, to review their legal system, to improve their judiciary, etc., you are in fact laying the groundwork for expanded human rights, but without exceeding your legal mandate.

Q: In places where civil service is one of the few options for the well-educated part of the population in an underdeveloped country, to talk about reform or making the civil service more efficient strikes me as being threatening to whole classes of people in particular societies. I guess I'm asking, to put this into a question rather than a statement, if there is opposition to your position in underdeveloped countries. I saw your very interesting speech to a group of Latin Americans on this question of reform. Is there opposition in Latin America to civil service reform?

A: In Latin America much less than in other parts of the
world. Most opposition stems from the fact that countries and governments don't like intrusion from outside sources on internal matters like civil service reform. Surprisingly, many countries now are asking the Bank for help on civil service reform. Next month, we will hold a conference for Latin America on the issue of judicial reform. We deal with these matters as technical issues relevant to economic development. The head of the Inter-American Development Bank was telling me the other day that they have more requests than they can meet in these areas.

Q: This question of governance obviously comes up in different contexts. One is the question of efficiency in the Bank and its work. The other issue, of course, is the question of participation and to what extent should the Bank involve its beneficiaries in the shaping of projects?

A: That latter issue is under discussion now. In my governance paper, I said that participation of beneficiaries in the design and implementation of the project is a useful thing and should be pursued. However, participation as an overall proposition is closely related to the democratization of a society, and this is a political issue. That's not our job.

When the paper went to the Board, it was that particular issue that was disputed by one or two members. The paper as
a whole was accepted by the Board, but I remember the Dutch and the Canadian EDs saying that we should be an instrument of democratization. They did not seem to realize that becoming an instrument of democratization places the Bank in the heart of domestic politics.

It's a difficult issue. Where would you draw the line? In fact, when you entered, I was reading a draft policy paper on participation, and it's full of wishy-washy statements. This troubles me because, unless you are clear, the Bank will encounter trouble in this particular area. There are countries which could see the Bank staff as coming to incite the population against the government, and they would treat them like spies. They would put them in jail, and so forth.

Q: In looking over the list of your publications, we noted your continuing interest in the economic development in the Middle East. In the past, the Bank was criticized for not providing enough aid to the Middle East. Do you think that's improved in the last twenty years?

A: Not in volume. In fact, the Bank is giving very little to the Middle East nowadays. In North Africa, the developments in Algeria have slowed down Bank lending to that country. Morocco and Tunisia received some funds. The Bank does not give much money to Egypt, partly because the Egyptian government doesn't want to borrow IBRD money, and
also because the government doesn't like the Bank's trend toward intrusion in its affairs.

In Syria, we don't lend because of accumulated arrears. Jordan and Yemen are small countries, and everything is on hold in Yemen for the moment.

Iran could be a large borrower, but unfortunately, we are not acting on new loans, mainly because of political considerations, which I'm against personally.

So, volume-wise, we are not doing much. Happily, the Occupied Territories offer the opportunity for the Bank to play a visible role in the region, and it's taking full advantage. Nevertheless, the Bank plays a lesser role in the Middle East than in any other region. I'm not happy about that.

Q: Looking at the changes that have taken place in East Asia, and more recently in Latin America, do you see anything like their higher growth rates taking place in the Middle East, or do you think that cultural factors will prevent this from happening?

A: Political stability, not culture, is the primary issue. It is difficult to generalize because, for instance, the Arab Gulf countries' economies are very different from the rest of the Arabs'. Egypt's case, however, is a problematic one. Everyone was hoping that once they put the macroeconomic side
in order, then investment would pick up by itself. It didn't happen. They reduced their budget deficit from over 20 percent to three percent in less than two years. No country in the world has done this. The Central Bank of Egypt is now sitting on 16 billion dollars of reserves. Only a few years back they would only have reserves covering three weeks' imports. The macroeconomic situation has changed, but the rate of investment has gone down. Per capita income has gone down. People don't eat Central Bank reserves. They eat food, and food comes from income. The man in the street doesn't feel that he is better off. Hence, the political situation is deteriorating and the less sophisticated Egyptians see this decline as a result of too much contact with the West, and subjecting Egypt's will to the will of the Fund and the Bank. In other words, the Bank and the Fund have become the new colonialists in the eyes of the public. They have a very volatile political situation there, and some people are exploiting it.

Q: So it's larger than the religious differences that the Western press tends to focus on?
A: No. In a place like Egypt, religion has always been a very important factor. After all, it was invented there. That's nothing new. What is new is the growing popularity of religious political movements. They are gaining because some
people are exploiting the economic situation to project a religious solution to Egypt's problems. They say, "You have tried socialism under Nasser and you've seen it didn't work. You are now trying capitalism under the U.S. and the World Bank and you see the disaster that is happening. Why don't you try, for Heaven's Sake, God's solution." This argument is very appealing to simple minded people.

Furthermore, when people accuse government officials of corruption, and they say, "We are religious, we cannot be corrupt," etc. They also offer services (medical services, social services) for free or at a very low cost. In this way, they gain credibility. This phenomenon is not limited to Egypt, however. It is gaining ground throughout the entire region.

Q: In Algeria?
A: Yes, even in Turkey.

Q: Turning back to some questions about the management of the Bank, we wonder if you would evaluate the workings of the Board in regard to its relationship with the Bank staff and to the President?
A: It has always been, and probably will remain, a difficult relationship. Part of this is inevitable, and part can be improved. If you are a Board member, your job, by definition, is to pass judgment on what management does. If
you always say, "You are great," you will not be considered successful. That's the inevitable part, criticizing proposals, because that's the EDs job. At least that's what they often see as their job. This tendency becomes more pronounced when you have a big title, a big office, and you are deprived of the day-to-day power to influence what's happening. As a result, the EDs tend to be more aggressive in their intervention.

That's the inevitable part. The rest can, of course, be improved and a lot depends on the personalities involved. It also depends on the success or failure on the part of management to give the Board members the feeling that they are part of the decision-making process, because nothing alienates them more than feeling that they are marginal.

That's how I see the issue. I have always explained it to the Presidents. I also wrote some legal opinions on the respective roles. In essence, the issue is not how to define it legally, but how to see it working in practice. Personalities count, procedures count, and just good sense counts, because you can always get what you want if you know how to present it, and how to give your interlocutor the feeling that he's part of it.

Q: How do you see the three Presidents that you have worked with--Clausen, Conable, and Preston--in negotiating this
relationship?
A: Each one had his good times and bad times. Clausen, for instance, had a rough time on the budget issue because no matter what he said, the U.S., the U.K., and Australia voted against him. I think that was the main issue that caused the U.S. not to renew his appointment.

They got Conable in order to improve the Bank's relationship with the U.S. Congress. He definitely improved the relationship with the Congress, but not all the way. The main source of the opposition has always been the U.S. The U.S. takes the Bank much more seriously than other countries, and the American Administration is under a lot of pressure from Congress and from NGOs.

The relationship between the U.S. and the Bank has not always been friendly. Furthermore, the dichotomy between "Part I" and "Part II" countries also causes problems. The developing countries which need money desperately, don't want to displease anyone. They don't want to displease management or major shareholders. EDs from developing countries must therefore learn early on how to express their views without offending anyone.

EDs from the developed countries don't have to deal with that constraint but they often operate under strict instructions. Quite often faxes come in from Tokyo, London,
Stockholm, and other places.

All these behind-the-scenes considerations affect the relationship between the Board and management. However, the quality of the relationship also depends on who is on the Board. If you have strong personalities, it's different. If you have obnoxious characters, it's different. When I first arrived at the Bank, the Board generally was more cohesive. You had El-Naggar, who was a very strong leader, representing borrowing countries. He would get different EDs (Part II and Part I) together on issues. Although he did not represent strong countries, he was quite effective.

Many of the Part II EDs who followed El-Naggar lacked his fortitude and tact. Occasionally, there were very strong EDs from India, but their main concern was India. They didn't pay that much attention to cross-regional issues. Then Mr. Potter, from Canada, who caused a lot of tension in the relationship, not because he was bad (on the contrary, he was quite serious in his work), but he did not accept that management should have as much power as it did. That created tension every now and then.

I think Mr. Preston had a hard time in the beginning accepting the role of the Board. He didn't like dealing with Board members one-on-one. This is changing now, and I see a big difference. Nevertheless, there was a lot of tension
when he first came.

Q: What qualities does a World Bank President need to be successful?

A: The World Bank is a very "presidential" institution. A lot of power is in the hands of the President, especially if he knows how to use his position well. The Bank's reputation and future depends on the President's political standing, how much he listens, how much he takes initiatives, and how much he is capable of saying "No," when No is the right answer.

The choice of a President of the Bank is a very important decision, and it's in the hands of the U.S., for all practical purposes. That's why the U.S. has to select their candidate carefully, because, despite everything we have said, the Bank serves a great purpose for the United States, in addition to its global purpose, both politically and financially.

Let's not forget that the U.S. pays very little capital to the IBRD, yet, huge amounts are spent in the U.S. to finance goods and services for Bank projects. To be exact, the paid-in capital is less than ten billion dollars, while the total amount of loans so far, is about 250 billion dollars. Now, about 60 percent of the paid-in capital comes from so-called "Part I" countries, and the U.S. part is something like 17 percent, $1.7 billion at most. From the
U.S. standpoint, the Bank is definitely a good investment. They put in a certain amount, and their returns are comparatively large. The Bank spends roughly one billion dollars a year in the D.C. area alone. Without the Bank, the D.C. would be a much poorer city.

In addition to the economic returns, the Bank also provides the U.S. with political benefits. Through the Bank, the U.S. is able to do many things that it cannot do directly. In short, the Bank plays a very useful role for the United States, and the U.S. should really take the question of choosing the head of that institution very seriously because, in the end, the powers of the institution are, to a great extent, in the hands of the President.

Q: Can you comment on the strengths and weaknesses of the various Presidents?
A: Well, they are all great men in their own way. Each one has different characteristics. I have not worked under McNamara, but I hear from those who did that he was a bit too strong, too pushy sometimes, yet he did have a lot of guts and determination to get things done. There isn't any doubt that the Bank grew tremendously under him.

Clausen was a very good manager. He listened to people. He gave everyone the sense that he was important. That's a very good quality to have. He could get the best from his
people by giving each one the sense that he was important. If you are judging people just as managers, I would rate him to be the best in that respect. Apparently, he was not very successful in his relationship with the U.S. Administration.

Conable was a politician. He could get things done as a politician, but he would also sometimes accept compromises, even if they were not the best thing for the Bank. He got the capital increases and IDA replenishments through Congress. Generally, his relationship with the Board was very good, because he was good at forging compromises.

Preston is very different. He is a "father type." Interestingly, both he and Clausen headed large banks for a long time, but their management styles were vastly different. He was not used to the idea of a multinational board, a board that really must set policies. Now, he's beginning to accept that and he's enjoying a better relationship with the Board. In addition, Preston is a bit more abrupt in introducing changes because he believes that talking too much spoils the game.

Q: How important do you think it is to have at the head of the Bank, somebody who really knows something about development issues?
A: Obviously, it is useful if you know more about the business, but it is not necessary. If you are intelligent
you can learn the essentials quickly. Conable was not a professional at all. However, he was very quick to understand the issues and react to them. More importantly, the President should believe in the cause of the institution. If you get someone whose real purpose is to cut it down, then he will be in big trouble. Secondly, a president has to be very intelligent because of the complexity of the issues. The Bank makes complex issues more complex by the way we deal with them. Grasping all these issues, understanding what's said and written, and reacting quickly to them requires a great deal of intelligence, exposure, and knowledge. The president must be strong because he must withstand a great deal of pressure from all directions. And, unless you are able to say "No" when No is the answer, you fail.

Q: Going back to the Board, again, would you say that the role of the Board has become stronger? Has the Board become more intrusive? Has there been a shift in power and influence from management to the Board?

A: I would say that most of the power remains with management. However, the Board's role on policy matters is much more prominent now, if only because under new procedures, project discussions take much less time. Country discussions, country strategy, and policy papers now occupy most of the Board's time. So the opportunity to express
views on broader issues is much greater now than in the past.

Furthermore, management instructions to staff in the form of policy statements on controversial matters are now issued only after they are discussed in a Board seminar. This procedure gives the Board a role in what used to be the exclusive domain of management. In the past, although the Board was supposed to rule on policy, management issued instructions to staff on policy matters, under so-called "OMSs" (Operational Manual Statements) and later on "ODs" (Operational Directives), without involving the Board. There were OMSs dealing with important policy matters which became operational directives, but were never discussed in the Board. Today, you can't do that without going to the Board at least for a seminar, so the opportunity for Board involvement is much greater.

Q: Well, thank you very much. You've been very helpful.
A: Thank you.