THE WORLD BANK GROUP

ORAL HISTORY PROGRAM

Transcript of interview with

PIETER STEK

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Interview by: William H. Becker and Marie T. Zenni

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Q: Good morning. It's Thursday, November 14th, 2002. I'm in the I Building at the World Bank headquarters in Washington. I'm William Becker with George Washington University and the Business History Group.

Q: And I'm Marie Zenni, Task Manager of the Bank's Oral History Program.

STEK: And I'm Pieter Stek. I was Executive Director for the Netherlands until November the 1st, and now I'm in the overlapping period with my successor.

Q: Very good. Well, thank you, Mr. Stek. It's a pleasure to meet you, and we're very pleased that we were able to put this interview together on a relatively short notice. As Mr. Stek said, he is the outgoing Dutch Executive Director, and he has responsibility for 12 countries in that capacity, or had that responsibility until November 1st. We'd like to begin by talking a little bit about your experience before you came to the Bank, if you could talk a little bit about your educational background?

STEK: I was born in England before the war. We moved to Holland when I was ten and, after catching up on the Dutch curriculum, I went to secondary school near The Hague and studied economics in Amsterdam. The economics was mainly macro and monetary, welfare economics and public finance.

Q: And so that led, then to your working for, among others, the Dutch Central Bank and the Ministry of Finance?

STEK: Yes, that's right, twelve and a half years at the Bank, and eighteen or something at the Ministry.

Q: Now, what in that experience at the Dutch Central Bank and the Ministry of Finance do you think was most relevant to your appointment as Executive Director at the Bank in 1996?

STEK: Well, at the Bank you learn to think independently, dispassionately. I had a terrific boss there, a second-generation Hungarian Dutchman called Andre Szasz. He was a great model. Then the Finance Ministry opened up the horizons because the Central Bank is frequently somewhat narrow, certainly with the limited mandate in the Netherlands of taking care of the currency and its value, internally and externally. So broadening was very important for me. While at the Ministry, I became Chairman of the Committee on Financial Markets of the OECD [Organisation for Economic Co-operation and Development], and I did that for about 13 years. I also became the Chair for two or three years of the Alternates of the Monetary Committee, as it was then called--later, the Economic and Financial Committee of the European Union. That was a very good experience when I became a Board [of Executive Directors] committee chairman here in Washington. One of the more useful earlier experiences was also being a member of the Board of the Bank for Dutch Municipalities. I was on that Board for many years.

Q: So, in view of your career path and familiarity with the Bretton Woods Institutions, what kind of adjustments, if any, did you find were necessary to make upon becoming a member of the Bank's Board?

STEK: My first job was at the International Affairs Department of the Central Bank. It was the time of the SDR [special drawing rights], and I was sent to Washington for a year and a half as a Technical Assistant, as it was called in those days, to the Dutch ED [Executive Director] at the IMF [International Monetary Fund]. I had learned all about the SDR, thinking it would replace the dollar, but somehow it never happened. In my naïveté, I believed that the dollar was on its way out. Looking back on it one smiles at oneself. I thought it was scandalous that the U.S. was not willing to give up the dollar. Then, after a spell of domestic stuff in the Netherlands, both in the Bank and the Ministry, I went back to foreign financial relations and took care of the Bretton Woods Institutions, the Regional Banks, the European Union and some OECD stuff. So that explains the knowledge from the outside and a little bit of the inside, but when you get here you realize that you need to be more courteous than is common in the Netherlands, and you mustn't try to make jokes all the time. First of all, people don't always understand jokes; secondly, some cultures don't like it all that much. I learned that from a number of my constituency countries: don't try to make people laugh at the first sentence. OK?

Q: And that's proved a good lesson?

STEK: That's a good lesson, although I still stray occasionally.

Q: OK. Upon becoming Executive Director, what did you initially set out to accomplish, and what were the pressing issues you had to focus on?

STEK: When I came here in November '96, the Bank was still very unpopular in the outside world. We'd just had the Annual Meetings with "50 Years Is Enough" in Madrid. The [Willi W. A.] Wapenhans Report was still being digested, and the reactions had not had their impact yet, and many further measures were needed. So the point was, there was a strong need not only to improve the perception in the outside world, but indeed to make some major adjustments in how we dealt with our business--specifically a need for greater focus, greater selectivity, and better management, to put it briefly. There was too big a gap between what was said to the outside world in order to improve the perception for a number of years and what was really happening. The ideals, in the course of my period at the Bank, were given flesh. Client orientation really became a serious matter. Selectivity in terms of selecting priorities--a special kind of selectivity--became real, but the internal organization had not yet adjusted. A very elementary thing there was that the budget process did not work in the Bank.

Q: And so the budget process was also one of your goals?

STEK: I've never been on the budget committee, thank God, so I am by no means an expert on the budget, and even though I come from the Finance Ministry, I don't like the subject. However, it was very clear that the Bank was a mess.

Q: OK. As the Executive Director of a number of countries at different stages of economic development, how did you balance the varying interests and demands of your constituencies, especially since some are third-world countries, others second-world, and some are advanced industrial nations?

STEK: The existence of the IMF and the World Bank itself is proof that there must be a common interest. They wouldn't have been so successful in binding together the countries of the whole world if there had not been that common interest, so I don't feel that this distinction between types of countries is so terribly fundamental. We have a joint interest in improving the situation in the world, and that interest is not even hard to describe. I mean, if economics and trade are not a zero sum game, everybody can improve their situation by enabling each other to do what they are good at. Now, some countries need a bit of a push, and it's to the advantage of the developed countries to give that push and not to make it incredibly burdensome for the developing countries through the conditionality. One can at least try to aim for an optimum.

The problems of countries are also basically the same. For a long time, many economists thought developing countries were really a different animal, but they're not. That's something we've become aware of now. It must be 20 years ago, I would say, at least, and so we've moved away from this thought that developing countries need very special solutions to their problems. But the point is that they have much tougher situations, and the pain of making mistakes is much greater than in industrialized countries.

Q: To what extent do political situations of the various countries in your constituencies impinge on your work? Or do they?

STEK: When I came in, one of my countries was Bosnia and Herzegovina, and that obviously was a pretty fraught situation because peace had only been restored recently. The Bank had only been at work there for roughly a year and had been a very dynamic partner, as a matter of fact, to Bosnia. But the internal situation was such that there was no trust and no real willingness of the parties to collaborate. That evolved slowly, and I was proud to be a small part of that. Thanks to the confidence-building efforts of my Bosnian assistant, Zlatko Hurtic, I managed to organize the first dinner that the Republika Srbska and the Federation representatives--Croats and Bosnians--had with each other. They started telling jokes in the course of the dinner, which were hair-raising. They're tough cookies; let there be no mistake. We did something similar in Brussels half a year later, and that worked, too.

Croatia was also very difficult because they had a regime that was not held in high regard in the West, the Tudjman regime, which was very nationalistic. At some point the Bank and the IMF, particularly the Bank, because of pressure of their shareholders, were not able to continue with the program. I objected because I thought this politicizing contradicted the Articles of Agreement and made a very principled statement. It didn't help because the major shareholders don't budge because of a valid statement. There was never an answer to the statement, but, you know, you had to do what was right by the Articles.

Then Israel is one of the member countries of our constituency, and there we regularly had political issues, often because of glitches in the way Bank operations in West Bank and Gaza are presented to the world. It's a complicated situation, and there's no intent (as far as I can judge), but occasionally there are pronouncements from the West Bank and Gaza that make it appear that the Bank is, let's say, on the side of the Palestinians, and that then creates a big rumpus for obvious reasons. Or the Bank publishes the wrong map, where every country in the region is mentioned except Israel, and then there is always some kind of explanation, which is not totally convincing, and there's not even a footnote explaining why West Bank and Gaza is spelled in capitals, and Israel is not there. These are very sensitive issues, and then some newspaper picks it up. There's so much Bank documentation, and frequently you don't even see the stuff yourself until you're warned from the outside. Then the Bank has to make amends under pressure from our office and to try and find ways of preventing that kind of thing from recurring. These are, in a way, micro issues. A big issue for Israel is loans to countries that they regard as financiers of terrorism.

As for the transition-country borrowers, their political situation varies quite a lot, whether it's their values, the strength of their democracies, the strength of their governance, et cetera. At the same time, they all have the same problems. They have to bring about major change in what are vested interests frequently linked with the power structure of the past, and that is highly political and very difficult, and one is in continuous contact with that issue.

Q: How would you describe the G5 countries' understanding of borrowers' needs?

STEK: It's interesting that you say the G5, because these are the single country constituencies. Their understanding is not as good as it should be, and it depends very much on the individual Executive Directors of such countries, whether they take the trouble to broaden their views. Moreover, they have another major weakness, and that is that they tend to get instructions from their capitals, which again, depending on the quality of their representative, can prove to be rather stifling for the debate. So I think the G5 is an element, obviously, of power in the institution, but that power is not put to the best effect.

Q: How does it compare, for instance, with that of the Nordic-Baltic group?

STEK: Let me say one more thing. Thank heavens the G5 do not always agree with each other. And as you may remember, in Madrid they were outvoted anyway, if I remember correctly, by the rest of the world. Perhaps it was the G7 even that was outvoted. In comparison with the Nordics--I don't know why you select them because the four major developed ones and Iceland outweigh the others by far, which makes them basically a Part One constituency--a real mixed constituency with significant numbers of borrowing countries in the constituency is more interesting. In a constituency like ours, and the Swiss and the Belgians, to some extent, although there you also have Austria and Hungary as well as the Czech and Slovak republics, which by now are almost industrialized countries. So the real comparison is with us and countries and constituencies like ours, of which there are not too many. I think we do have a better understanding of the issues and of how to achieve that optimum we were talking about earlier in policies which enable the countries to use the money to good effect and yet not constrain them excessively. So I'm very happy with the mixed constituencies. I also think they're a force in the Bank. The previous U.S. ED always recognized that publicly. Jan Piercy said she was very jealous of us, and she was one of those EDs who did a lot of hard work in trying to catch up on the as-it-were innate disability of the U.S.

Q: In your opinion, why has the EU [European Union] decided to maintain the status quo in renouncing an attempt to unify its presence and representation and speak with a unanimous voice in financial institutions such as the IMF and the World Bank?

STEK: Well, in the IMF, the situation is different from the World Bank. Of course, there's a monetary union with a euro in the center, and clearly there needs to be a voice, and there is a voice for the euro center of the monetary union. But the U.K. and Sweden are not part of that, and so even there you have a need for a separate voice of certain countries, very definitely, and moreover, macro issues are linked with monetary issues, and budgetary policy is not harmonized. That's still a power of the individual governments. So even in the IMF, there is no good reason to say that a country should give up its individual place. In the World Bank there is even less reason because development policies are not harmonized.

There would be a real concern, I think, in my constituency, to give up our independent voice, because we have a totally different approach to development from some other members of the Union, like France. For example, we have a large development budget, and we wouldn't want that to be controlled by outsiders. If there were to be a single EU chair, the interest in providing a lot of development assistance might decrease in the Netherlands. Moreover, we have a strongly overlapping agenda with the World Bank itself. So the World Bank would lose a major element of support, and looking at this from the position of the Articles of Agreement, so would the global interest, the common interest. The World Bank needs its supporters in the Board who strongly believe in the rule of law and in not politicizing the issues.

Q: Turning to the Board structure and its role as a decision-making body in the Bank, in your opinion should governments endeavor to appoint high-level senior officials as EDs, as was done at times in the past, and would the Board benefit then from such presumably independent-minded individuals?

STEK: When I was posted with the IMF 32 years ago, one of these very high-level persons was the Dutch ED. Professor [Pieter] Lieftinck had been the Minister of Finance who had cleaned up the Dutch financial system after the war in a really very solid and thorough way. He was well known in the history of the Bank and the IMF as a Director for both institutions. Working with him was a marvelous experience for me. So I would not say that countries should not bring in very senior people when they are available. At the same time, it’s always a matter of choice. You can send a very bright young person who is independent-minded, and you can send a very senior person, as long as that person is also independent-minded and not the mouthpiece of his authorities. I think that is the most important part, that you believe in the institutions and that you're independent-minded. If one, as a rule of thumb, takes it to be true that senior people have more experience--and there's also something going for a senior person to cope with a strong management, including the Chairman of the Board--a high-level appointment can be very good.

Q: In your view, is the two-year renewable term of Board members an adequate period for them to master the overwhelming array of complex issues on which they are supposed to develop an independent opinion, even for the few who come with prior understanding of the institution?

STEK: I think that is a defect in the Articles of Agreement, and it would be welcome if there was a way of changing them in a limited technical sense without creating all kinds of risks for the Bank and the IMF. I doubt whether that is possible, but it would be great if we could reach an understanding that people will not be sent for less than three, or preferably even four years. It's very harmful, I think, to have people who have just gained enough experience and have achieved a fuller understanding--even that doesn't always happen in two years, but it gives you an opportunity--and then they have to leave. Of course, there is a counterpoise to some extent, now that the assistants and advisors have become a power in the institution. They only started cooperating closely with each other three or four years ago, and they take care of continuity--as long as they don't leave at the same time, which they don't. Some of them stay for quite long and some, including executive directors, even stay for too long. If it's more than six years, it's too long.

Q: Your predecessor, Eveline Herfkens, developed an induction program for EDs during her time as Dean of the Board. What has been the impact of such a program?

STEK: That program has been very beneficial. I had a bad induction to start with because it was in a room with a long, narrow table with bad acoustics, and the Bank had not yet discovered the existence of microphones in those days. It was at the Hay Adams. But even that was already helpful. After that, rapid improvements in the induction program were brought about. A great deal of thought is put into the structure and content of the program, and it has become a powerful instrument to get new EDs online. It also helps to create cohesion between the EDs, but that's a separate question.

Q: How do you reconcile the duality of loyalty and responsibility in your role both as an official of the Bank and in representing the interests of your authorities?

STEK: I think it's important to make clear what hat you're wearing when you're taking a position. I do not find it very difficult to do that, as a matter of fact. When I'm talking for Israel, I make that clear. The Bank itself has elements of procedure that see to it that you don't disturb the open debate by defending the narrow interests of a single country all the time. You're not meant to make a fundamental oral statement when the country assistance strategy of one of your countries is discussed. You write a yellow and people can read it or leave it, but that is understood to be a defense of the country and not necessarily fully to cover what is in the interest of the Bank. When there's a project in a country, you're not meant to talk at all, if it's your country.

So the real issue is with the Board members who are under instruction. First of all, you're not allowed to take instructions, if you read the Articles carefully. You're an officer of the Bank and the Bank pays you, but the facts of life are that Board members do take instructions. Usually you sense when they are talking with their country hats on and when not. In passing, it is less likely that an ED for a mixed constituency will receive or follow instructions, because this could lead to tension between the members of the constituency. So the real issue is whether members of the Board put on their Bank hats often enough.

This was debated quite thoroughly at the Executive Development Program in Harvard. Some EDs went there for six weeks, but as the Board we went there for three days. I was in that latter group, not because they thought I was a fast learner, but I'm afraid it was because they thought it would be wasted on me to spend six weeks in Harvard. Anyway, a fundamental issue was that if Board members do not wear their Bank hats, you cannot expect Management to be as transparent as it should be and to display as much candor as it should. That's the trade-off. In [James D.] Wolfensohn's time, the Bank has become more candid internally than it was in the past towards the Board, in my opinion, but there needs to be something in return from the Board, and that goes up and down. There are some very good moments, and there are also some pretty bad ones.

Q: I think you've begun to address this next question, but what impact does this duality have on the effectiveness of the Board? Do you want to talk some more about that?

STEK: Let's think of an interesting case, which strikes me just now. There is an issue of the degree of micromanagement which the Board should or should not try to exercise in its relation with Management. A number of members like to go into great detail. I think that is wrong, and it does not help for the candor. It certainly doesn't help for the effectiveness of the Bank. In my view, the U.S. likes to manage in some detail a lot of what is going on, manage it from the Treasury, and the tightness of the instructions to the ED is related to that. I think that is harmful, but there is a major issue, at the same time, of whether you should give adjustment loans and programmatic loans to countries and at what stage. There is an issue of governance, which the U.S. is right with other countries to point to. So the trade-off should not be between adjustment loans and micromanaging, but should be based on the level of responsibility and effectiveness in management and in governance that is being achieved in the country. It should not be based on the preferences of a Part One country on how the Bank should be run.

Q: How does the growing role of NGOs and their agendas influence your role?

STEK: The NGOs are interesting, particularly the ones that are not single-purpose NGOs, single-issue NGOs. When you have a very strong statement from a single issue NGO, perhaps followed up by thousands of emails, then that's not really interesting. This is a complicated world where you need to achieve a balance between various policy objectives and you need to achieve a minimum level of protection against what may go wrong in environmental terms or in protection of indigenous peoples or in terms of water management or whatever. But if the NGOs go beyond that, they can be interesting if they look at the broader panoply of issues, like Oxfam does. As a matter of fact, I have a bit of difficulty in thinking of very many other NGOs that have such a general approach and cover basically the whole agenda of the Bank. That doesn't mean that Oxfam is always right, but there's a critical constructive relationship there which is useful. Oxfam has played a good role in education, for universal primary education, and on other issues too, for example, the PRSPs (Poverty Reduction Strategy Papers). But I would say we are not governed by them at all in our constituency. We are not afraid of them. We do try to look carefully at what they say, particularly the local NGOs in the borrowing countries may have points, which escape notice unless you do.

The Western NGOs have a useful role in facilitating their interaction with us, like the Bank Information Center, which regularly brings visitors from my countries to my office and from other countries, too. But the broader views of Western NGOs, while possibly useful, are not a dominant constraint on what we do. I'm not quite sure how powerful they are in the U.S. One sometimes gets the impression that while they make a lot of noise, perhaps they do not have all that much of an impact. Be that as it may, they can open your eyes to important issues, and if that's taken over on the Hill in the U.S., that can be quite important. But I expect people are not all that impressed when there's a bias, a strong bias in the position that's taken.

NGOs have this fundamental weakness that you usually don't know how representative they are themselves or who finances them. However, while democracy in advanced countries usually has a fundamentally representative structure, in our borrowing countries the NGOs can be a very useful addition, particularly where democracy is not full-fledged yet. Then you have to listen more carefully to understand what's really taking place at the level of the population.

Q: In 1995, the size of the Board was increased to 24 members. In your opinion, is the Board too large to function effectively? And should the single-country executive directorship be eliminated?

STEK: Well, the Board could usefully be smaller, but there are no easy solutions to that because some of the constituencies are already very large. It's also very hard to envisage single-country constituencies giving up their power, although I think they could learn a lot, as we discussed earlier, from having borrowing members with them. At the same time, the borrowing members of, let's say, G15 countries who might think of joining G5 countries might be worried their positions would not be taken into account in any real sense. So that's why I'm not optimistic about a reform of that nature. A smaller Board would be useful, but given the size of the African constituencies, the Canadian constituency, the Belgian, Swiss, and Dutch constituencies, it doesn't look very promising to go in that direction. Some Latin-American constituencies also have a significant size, and it's hard to see us dividing up our countries over the G5, plus China, Saudi Arabia and Russia. I do think that it's wrong that a country with such a low level of income plus some nukes is a single country constituency. I do think Saudi Arabia, which is still floating on the wave of its single largest-creditor position of the '70s, should have been dealt with long ago.

Q: Are there constitutional or institutional factors limiting the effectiveness of the Board function?

STEK: Being a resident Board helps a lot, compared with ordinary Supervisory Boards. While it creates a temptation to micromanage, not only for the U.S., which is basically a resident shareholder, for the other countries it's helpful as a lever. Management may be willing to be candid, but Management may not even be fully briefed itself all the time. It's very useful to be on the spot and have all these links between the staff and assistants and advisors, or advisors and senior advisors, as they're called nowadays. This makes it extraordinarily difficult for Management to hold a veil over what is really happening. At some point, the real issues become clear. As this is an institution where you need the support of the shareholders and you don't want the shareholders high-handedly to take stupid measures that are damaging for the institution, it's very important that they get feedback from the Board on what the real issues are, and about sensible approaches to dealing with them. That's why a resident Board is a very powerful instrument in containing the stupidity of major shareholders.

Q: How adequate have the various efforts at streamlining Board procedures been, and, in your opinion, what remains to be done?

STEK: Under Alex [Alexander] Shakow as the Acting Secretary of the Board, the efforts have been very effective. One could first of all point to the [Bassary] Toure Report, but Alex was already improving Board behavior by imposing constraints on the Board before that. While we usually, when I came, started meetings about 10 minutes late, he managed to impose discipline on the Board, and we started on time with just one or two minutes' delay. Now that can easily slip again, although there are now flashing lights and that sort of thing, and even a tone that goes off at some point once or twice. However, there are lots of aspects to efficiency.

Q: Looking at simplification of Board procedures?

STEK: You know, there's a continuous struggle to get Management to write brief documents, clear executive summaries, and make useful introductions at the start. And in fact, in all these areas there has been major improvement. There is a discipline among most parts of Management to see to it that their introductions are not too long, that their answers to Board comments are direct. Yellows are responded to mostly directly at the start of the meeting. So the interaction is quite effective, and I'm not unhappy with the improvements that have taken place. The role of the committees has improved enormously in my time. That may be one of the major factors, as a matter of fact. Committee discussion is not all that much use if everything is reopened at the Board meetings. So the way the Committee discussion is presented to the Board in a statement or a green sheet and the structure of that paper is very important to guide the Board and stimulate it to focus on remaining issues. This has proved to be quite effective in limiting the amount of time spent in Board discussions, which is all the more important because the Board agendas have become very overloaded. Board behavior has improved a lot, both due to the physical discipline of the six minutes' time limit and to the better preparation through the committees.

Q: Seeing that the Board is representative of a broad range of interests, how difficult is it to reach a consensus, especially when contentious issues arise from concerns over geopolitical issues, as in the case of the U.S. exercising its veto power, given its unique position as the largest single shareholder?

STEK: On the whole, it’s not all that difficult to reach a consensus for most of the issues, if one doesn't interpret a consensus as meaning 100 percent agreement of Board members. I'm not aware immediately of a geopolitical issue that has made the achievement of consensus very difficult, unless you're referring to an issue like that of loans to Iran. Would that be one of the cases?

Q: That would be one.

STEK: That's a case where the U.S. voted against, and there were one or two other countries, and I had a problem within my constituency because I thought it was a political standpoint which was trying to be forced onto the Bank. Of course, my country, Israel, knows a hell of a lot about Iran and regards it as a terrorist country, and so does the U.S. At the same time, as a constituency we didn't want to contravene the Articles, so I had a very complicated situation. I managed, in the first instance, not to mention Israel separately. However, Israel was not happy that they were not mentioned as being opposed while accepting that the constituency as a whole would go along. Now, I explained to them that split voting is not allowed in the Bank, so I was trying to cover their position by careful use of language without mentioning that there was a split in the constituency. They didn't really buy that because in the prevailing domestic political situation there was an outcry there: "Dutch Director votes for loans to Iran." So that was pretty rough.

But the U.S. doesn't have a veto power for most issues. For changing the Articles and for one or two other things, they just have a few votes more than the 15-percent limit, and I can't even remember having that kind of vote.

Q: It's 17 percent now.

STEK: In the IMF, particularly, there are one or two issues in the SDR field which require an 85-percent majority. I've forgotten now about the Bank Articles, whether there's anything that requires 85 percent.

Q: How can the slow process of IDA [International Development Association] replenishment, generally fraught with political hazard, be improved upon in light of the decline in ODA [official development assistance]?

STEK: I was part of the lengthiest IDA negotiation. I was the Deputy in IDA, under IDA 11, working from the Netherlands. That enabled me to see a large part of the world, ending in Tokyo, finally. IDA is obviously not an easy issue when you have countries that want to be very generous and countries that want to be very tight-fisted. That is a much greater issue than the degree of conditionality. There is also quite a strong sense amongst most IDA deputies that IDA shouldn't be scaled down in relative terms within total assistance. So it's not easy to think of mechanisms to reach agreement, let alone to increase the size, which would be effective all through the various replenishments. It depends very much on the US Administration, on whether the Japanese are in good shape or not to continue providing assistance at a high level, as well as whether countries are working under tough budgetary constraints or not.

The U.S., for as long as I can remember, has been very difficult and tight-fisted. In the very early days the U.S. also had 0.7 percent of GNP as its level of assistance, but that went into steep decline very rapidly.

It's hard to make a prediction whether the decline in ODA will continue or not. Certainly the ongoing effectiveness discussion is very important. The IDA replenishment gets a real boost from improved effectiveness of development assistance. Effectiveness is also related to governance, so it's also very important for the Bank to find the mechanisms to apply selectivity in the sense of not being too generous to countries that waste the money, to put it bluntly. That is always tough because the built-in tendency of a Country Director is to see the best in a country. It's not conscious distortion, but you want to help the country and you see that the people need it, and it's very hard all the time to say, "Yes, but we know that the effectiveness may not be all that great," because a dollar may be diverted to individual pockets or for different purposes.

The IDA Deputies have created a tight framework of conditions that need to be fulfilled in order to achieve the highest allowable level of IDA relative to the size of the country, and if you don't meet the conditions, you sink quite rapidly to a low level of IDA assistance. That is, in a way, a strong example to the Board for the Bank borrowers. At the same time, this process is governed perhaps a bit too much by the Part One narrowness. So while I agree with the need for selectivity, this may have gone a bit far.

Q: The Bank has recently agreed to provide up to 22 percent in grants instead of the current seven percent. What, in your opinion, might be the ramifications for the Bank in terms of IDA re-flows?

STEK: Well, that's a technical question. Only after about 10 years does it start having an impact on us, but it's bad. In my view, it's an incredibly misconceived policy because there are plenty of grants in the system already through the UN system, the European Union, namely the EDF (European Development Fund), and bilaterals.

An IDA credit is not a credit in the full sense but close to a grant. Basically, it is an administrative charge that brings an element of discipline into the system, which is very useful because it's necessary to administer and to have transparency of the books. The fact that an IDA credit is not costless leads to better allocation of the resources both in the country and in the institutions. There's a real risk that the institutions themselves will be under the temptation, if they give a grant, to follow less closely in the longer term what's happening.

I really regret that we've moved to this percentage. It will decrease our effectiveness. It was a total misconception on the part of Secretary [Paul H.] O'Neill that it was unfair to ask these countries to pay back over the course of 40 years. For God's sake, if you can't make an investment effective within 40 years, then the whole concept of development is an illusion. And in fact, the record was that they did repay; the repayment percentage came close to that of the Grameen Bank. It was 96 percent until the HIPC [heavily indebted poor countries] debt relief exercise started, which sort of generalized, in a fair way, the issue of whether you have too high a debt burden. It's wrong to start off by giving grants. It's OK if there proves to be a huge problem in retrospect with the millstone hanging around your neck, then to take a measure, but it creates a major moral hazard for the provider of the money and for the recipient to have a large element of grants in the system.

Q: What are the ramifications for the Bank per se?

STEK: Well, IDA, of course, needs to try and achieve additional amounts in the replenishment pledges, preferably in advance for the future. Politically, that's highly improbable, and it'll have to be played by ear in each replenishment, but there's a real risk that ultimately it might lead to a reduction in total assistance to the developing countries. IDA was fast on the way to becoming self-sustaining, as you may know, through the reflows and the charges, and that is now being delayed ad infinitum. I sometimes wonder even whether the U.S. position was governed by the desire to micromanage IDA.

Q: The role of IDA Deputies has been criticized as aggressive in injecting donors' policy views into IDA replenishment exercises. What is your opinion, and how does this affect the Board?

STEK: Well, there is sensitivity here. As a former IDA Deputy myself, I do think the process is quite careful. There are a lot of sensible, idealistic people among the Deputies who are really interested in development assistance. So I wouldn't just lash out at the Deputies, but there is a tendency, which you might expect, of a number of specialists among each other to perfect the system to the point where you get diminishing returns. So an attempt has been made to reduce that risk by having the borrowing countries, IDA members, some of them representing regions, come in as observers with the right to speak. But further work may be needed in that respect. There's also some tension between the Deputies as a group and a feeling in the Board as a more general group containing the borrowers that IDA may be claiming too much for itself and that the Board should not just lie back, certainly not on country assistance programs and on conditionality.

Q: In 1995, in his first address to the Annual Meetings, President Wolfensohn emphasized the revival of the Development Committee as a forum for substantive discussions between ministers from both developed and developing countries. In your view, how has this revival impacted the so-called North/South dialogue?

STEK: In my view, the Development Committee is functioning much better than I remember from those early days. It is useful to get a political input based on careful preparation by Management, after and with Board approval, of the documents. It is useful to have a political dialogue in order to create an honest awareness of fundamental issues in the capitals. If you don't have that, the Bank becomes too separate and is at risk of not being fully understood in capitals. But if these Finance and Development Ministers are involved closely twice a year, then that is very helpful for the institution, and it provides good political input to what we need to do. We cannot pretend to be solely a technocratic institution that does its technocratic best and then applies screwdrivers where screws are loose. So I'm quite happy with the Development Committee.

I'm less happy with the tendency we've been seeing lately to have joint sessions with the Interim Committee. I have a feeling that that dilutes the effectiveness of the Development Committee itself, because, obviously, major issues, the crisis-type issues that are frequently discussed in the IMF, may dominate the attention of those who attend the joint meetings.

Q: You might've begun to address the second question here, but how effective is the role of the Development Committee as one of the bodies through which governors convey policy guidelines to the Board and Management in moving forward the implementation agenda towards meeting the MDG's [Millennium Development Goals] to reduce poverty?

STEK: I was alluding to that already, but let me just say a bit more precisely on the North/South issue that I do believe the meeting of senior officials, from borrowing and non-borrowing countries, is important. They do tend to listen carefully to each other, that is my impression, and I've attended many of these meetings. The MDGs, of course, are important as a politically setting a goal, and they've created significant focus and cohesion in the international approach to what needs to be done. The Development Committee is an important body in this process, particularly because of the involvement of the Finance Ministers who, after all, have the power of the purse; otherwise, one tends to have gatherings where foreign ministers and development ministers may say more than they can really vouchsafe in the longer run. It's also very important that the Development Committee retains its own degree of control over the process and does not give this up to outside bodies, because what one might see then is that Finance Ministers simply don't easily take orders from others, and then the effectiveness of the process is reduced.

Q: For the better part of the Bank's history, Board/Management relations were fraught with built-in tension. How would you characterize these relations today, and how do you see them evolving?

STEK: When I came, there was quite a lot of tension. Mr. Wolfensohn was not too happy with the Board, and the Board was not too happy with him, particularly when he got excited. As you will have heard from colleagues, he was used to having a Board that was a partner in doing business, and he was quite surprised to find these political characters following instructions and not displaying all that much understanding of what he was trying to do. Nor were they always impressed, either. After the fundamental discussion--which I mentioned earlier--about candor and wearing two hats and being able to wear the Bank hat, I think there has been a major improvement, also because the Comprehensive Development Framework created a focus for Management and the Board to collaborate more easily within more or less the same framework for addressing the issues.

So I've become an enthusiast for the Comprehensive Development Framework. It has this medium-term focus; it is holistic, to use the fad word; and the issues are interconnected, so it is a good framework; and it brings out the need for country ownership, which is something to work on. Even in Part One countries one can question whether there is ownership of the policies, so that it's very important when there are major challenges to try and create a base within a country, within successive governments, because you're following the effects over the medium-term. You create continuity in the approach and in dealing with the challenges, and you need, of course, to have participation to create a broader base for support in the population, and you need the partners to work together. So it's an excellent framework and has all the columns from which you need to select what the priorities are in a country that may need further attention. It's the right idea that you need to force a Country Director into establishing together with the government the real priorities as seen by the country itself. The CDF has helped in establishing better Board/Management relations.

The other essential factor is that Management has started managing. It was a tremendous surprise to find how little professional management there was. The Bank was run like a public sector body, almost, rather than a business. In retrospect, it's strange that this has taken so long, but although history is very interesting, as a policymaker I'm also interested in looking forward. I think we can have reasonable confidence that the Bank will not give up managing again.

Q: We've talked about the resident full-time Board already. Do you wish to add further on how it affects Board/Management relations?

STEK: If the Board is constructive in its approach to the Bank, then it's helpful. If the Board is not constructive, it's an irritant. Management is right at times to show its irritation, and the Board is right at times to demand that Management be frank and explain the issues as it really sees them.

Q: To what extent does the dual role of the President as head of Management and as ex-officio Chairman of the Board affect these Board/Management relations?

STEK: I've sometimes tried to think of the alternative, and I think a Chairman from the Board as a counterpart to the CEO [chief executive officer] would be a lot worse for Board/Management relations. Given the political nature of the appointees in the Board--and it cannot be denied that these are political appointments and not purely technocratic appointments, in many cases--it is on balance useful that Management has the extra tool of having the Chairman in the Board with a measure of control and with the ability to help set the agenda through Management proposals for the agenda, which is then discussed in the Board. These extra tools are necessary to strengthen Management sufficiently against situations that might occur of arbitrary politics taking over.

Q: How would you characterize the function of the Corporate Secretariat in its role as key interlocutor between the Board and Management?

STEK: It's an essential function, but it depends on the person who takes up that function. It should be fulfilled with an understanding of the need for trust on both sides. Management needs to confide in the Vice-President Secretary, and the Vice-President Secretary needs to be trusted by the Board in order to convey the true issues as seen by the Board to Management and needs to confide in the Board to the extent that that is possible. There have been some very good Vice-President Secretaries, and there have been weaker ones.

What you do not want is a Vice-President Secretary who is thinking all the time of making a future career in a different vice-presidency within Management or becoming a Managing Director. In the concrete case where the latter happened, the Vice-President Secretary had fulfilled his role excellently. One did notice that when he tried to combine that with being a Managing Director, the burden became intolerably heavy, and this was not a matter of the person not being able to be confided in by either party, but it was a case of simply being overburdened. It is a very separate function that demands your full attention, and it requires great care to select a suitable person.

Q: How well do staff, in your opinion, understand the work of the Board?

STEK: That differs enormously. It's hard to generalize. Staff members who have interacted with the Board a lot understand it quite well. Many others are highly surprised to discover that members of the Board are reasonable human beings with an interest in development like they have. It was quite disconcerting to find in a panel session in the Executive Development Program that many staff participants had only the vaguest understanding of our role.

Q: And is that something the Corporate Secretariat should pursue?

STEK: That's a good thought.

Q: What, in your opinion, should be the Board's role in the selection of senior management?

STEK: Well, for certain positions, the Board's role should be very prominent: for the Director General Operations Evaluation, obviously; also for the members of the Inspection Panel. I chaired both recent selection processes. For the Legal Department, the succession is not just a standard Management appointment. There, the President and top management should take care to sound the Board very carefully, because the Legal Counsel is the counsel also of the Board and is even the counsel of the Inspection Panel. This needs to be dealt with more carefully than in the past. The Vice-President and Secretary we just discussed. The role of the Board should be significant. There should be consultation with the whole Board individually and the Dean should play a major role.

One of the weaknesses in the structure--reverting to an earlier question, by the way--is that the Dean happens to be selected by length of tenure in the Board and not by quality of service. At the same time, it's not easy to solve, because if you start making the Dean a selection process, it could become politicized. I don't know how to solve that.

May I revert to the earlier question about weaknesses in structure?

Q: Sure.

STEK: One of the big issues is, of course, whether the President should be a U.S. citizen or not. I have mixed feelings there. Many of my colleagues feel that this is shameful. At the same time, my experience of global selection processes is that they become highly politicized and that one may, due to totally wrong kinds of incentives which have the nature of bribery almost in political terms, get an appalling choice. And, if it's a pure U.S. selection process with another institution being in the hands of another group of countries--and there are not only two institutions, there are more institutions, the WTO [World Trade Organization], et cetera--then there are some advantages in having the process limited to a selection within one country which happens to be the major shareholder. It also has the advantage that this might retain the support more easily of that major shareholder. It does require that the major shareholder accept a profile of the function made by the Board, and we've worked on that. There is now a paper on that; are you aware of it?

Q: The joint IMF/World Bank report on the selection process of the Heads of the World Bank and IMF?

STEK: Yes. It is important that the U.S. ED brings that report to the attention, in a timely fashion, of the U.S. authorities, and that it is abided by, that it's taken seriously. As I said, I'm not convinced that opening up globally would necessarily lead to better results. But it's very hard to find the philosopher's stone here.

Q: But how much of a role would the Board have in the selection of the WB President?

STEK: A strong role would be good. If I recall, in that selection process there would be interviews with a group from the Board. And then the question is, where do the rules become an illusion, and where are they real? And that needs to be tested.

Q: The candidate for President is normally selected by the U.S. government, then put forth to the Board by the U.S. ED where the Board votes on it. Correct?

STEK: Yes.

Q: Now, the question is: will the Board have more of an active role in the selection process?

STEK: There may be a possibility of examining a candidate in greater depth. I doubt whether it's realistic to have a couple of candidates appear before the full Board because of the issues of confidentiality and pressure from other countries. I don't trust the process enough for that. But I think it's essential that the U.S. authorities take the needs of the institution very, very seriously and do not take a blindly biased partisan approach to this issue. One of the difficulties with this terrific democracy, of course, is that it's so highly polarized, so you don't get very often a position of convergence towards the center without large disparities in view.

Q: In your view, how successful is the Board in its attempts to bring some focus into the activities of the Bank?

STEK: If there is an important point of view in the Board, Management does listen carefully. Now, I'm not talking about the importance of a shareholder, but about an interesting view shared by a number of Board members. Management does respond, and it does lead to change when necessary. For example, the Board pressure to achieve selectivity, in the sense of not fragmenting the efforts over too many fields, has been a significant factor in making Management agree that greater selectiveness within the Comprehensive Development Framework is needed. When the debate is still ongoing, Management does what it wants to do. But when the debate has been resolved in a certain direction, Management tends to do what the Board wants.

Q: I think it's time to break.

[End Session 1]

Session 2
November 15, 2002
Washington, D.C.

Q: Good morning. Today is Friday, November 15th. We're resuming our interview with the retiring Dutch ED, Mr. Pieter Stek. I'm Marie Zenni, Task Manager of the Bank's Oral History Program, and with me is Professor Becker from the Business History Group. Further to yesterday's question about whether there are constitutional or institutional factors limiting the effectiveness of the Board function, I know you have further comments you wish to make. Please go ahead.

STEK: That's right. Good morning. One of the threats to the effectiveness of the institution as a whole is the existence of outside groups who achieve their agreements among themselves before things really come to the Board. The biggest threat, of course, is the G7, where the deals are made in totally separate meetings and where attempts have been undertaken to have an impact on the way Management and the Board do their business. We still get the occasional note or paper with views on how the Bank should operate, and they are based on a compromise.

One of the examples that I heard informally is that the U.S., as you may know, has been pressing for a more flexible pricing system for the Bank's products, and particularly a higher level of prices. The U.K. has opposed that. But at some point the U.K. offered the Americans to accept what they wanted on prices and join them if the U.S. stopped bashing the idea of adjustment lending. Now, that's the kind of deal you don't want to see made outside the Bank; you want to have that in an open discussion in the Board and not have the U.K. being quiet when the U.S. fulminates against the prices that we employ, and the U.S. keeping quiet when the Brits talk about adjustment and how necessary and good it is to have programmatic lending. That is one of the real threats to the Bank.

Another example: one sees that the present Chairman of the Development Committee has organized a meeting of the deputies of the Development Committee in Paris, manned to a significant extent by people from the capitals, and intended also to give guidance to the Bank. Now, that would undermine the role of the Board, if it became institutionalized. One of the things we are going to have to try is to recapture the initiative and prevent this poisonous plant from blooming.

More generally, I find each grouping that tries to achieve its aims by making deals outside the Bank damaging to the Bank. As a counterpart to the G7, one has the G9, and it may be GI1 now; I'm not quite sure how many have joined, but the developing countries also feel that they can only achieve their aims if they resist some of the pressures. To my great relief, the European Union is not very effective in the Bank, although they're trying. I get invited to meetings. I do go, and I try to undermine them, because I'm not happy with these outside groupings.

Q: Moving on to the Bank’s business, how should the Bank address the issue of selectivity in its crowded agenda, in light of greater emphasis on partnerships with borrowers, development actors, and other aid agencies and organizations?

STEK: Yes, you're speaking of the kinds of selectivity related to what the Bank does itself, for its range of products and instruments.

Q: Exactly.

STEK: Right. I must admit that I'm not one of the greatest supporters of making this a huge issue. Of course, there are UN organizations that cover certain fields that the Bank must not enter into. UNDP [United Nations Development Program] does things in post-conflict countries at a very early stage when the conflict is hardly over, and perhaps not over by some definitions, and that is not the point where the Bank should come in and deal with emergency situations on the ground. And the Bank is perhaps not the best-equipped in a number of areas which the Bank has never addressed. So I'm not talking about that kind of selectivity, which should be maintained.

We are not human rights specialists. That doesn't mean that human rights are unimportant, but we need not provide all the expertise, quite apart from the question of whether the Articles would allow us to deal with the issue of human rights, which is an open question. One can argue that the Bank has a role when human rights undermine its effectiveness and its reputation; however, that does not mean that the Bank itself needs to do the work in that area. It may have to decide how much and what kind of activity it undertakes in the country.

If we concentrate the selectivity issue on the instruments used by development agencies, then experience teaches that if the Bank focuses on something, it tends to do it rather well. If another agency is at work somewhere, that may be a good reason for the Bank not to apply that instrument there, but that does not mean that in some other part of the world the Bank does not need the instrument, if the agency we're talking about is not at work there. This needs to be dealt with on a case-by-case basis in cooperation with the other partners, with a reasoned debate about who does what. That is the real challenge for the Bank, to be selective in that sense, to be willing to talk about selectivity in particular instances, but not in the sense of limiting its arsenal necessarily.

By the way, after an explosion of the number of partnerships--a whole galaxy was added to what the Bank was doing in partnership, due to the vision and the enthusiasm of President Wolfensohn--in the last two years, a significant restoration of focus has taken place, so that we now have the criteria in place for what partnerships to enter into and how to exit from them when they do not meet the criteria. So by now the Bank is reasonably well organized in that respect.

Q: Well, having served as chair of the Committee on Development Effectiveness (CODE) for the past two years, in your opinion how adequate are the Bank's various mechanisms for evaluating and measuring the results of its work?

STEK: It's a good question, it's an important question, because there have been a lot of outside comments on the independence of the Bank's evaluation. In my view, those comments were largely based on ignorance, or they came from people with axes to grind, or were based on ideology. I think the Bank is very effective in evaluating its own work, because OED [Operations Evaluation Department] and its head, the Director General, Operations Evaluation, have sufficient safeguards for the right kind of independence. The performance of that department has been very good. The CODE discussions have quality to a significant extent because of the input from OED, which is very critical and very open. OED does talk with Management about its products while drafting them, but that has not undermined the candor of the reports. It's a close relationship. The danger of stressing the need for absolute independence is that you lose the contact between Management and OED and get a more distant view of what the Bank does, with significant possible misunderstandings, like you get from a GAO [General Accounting Office] in America or a Court of Accounts in many other countries. Often their judgments are based on lack of understanding of the policy issues involved. In my opinion, it is essential that OED stays in the Bank with the present safeguards for its independence and not be made more distant; otherwise, a very valuable interactive relationship leading to better results for the Bank would be lost, and it would become a much more adversarial relationship, which would be stupid. As it is, the Board often sides with OED. Management is in a position where it quite often has to defend itself, explaining why it differs in some respects from OED. Then a constructive dialogue--or trialogue--takes place. In my view, the Bank has a strong institutional setup.

Moreover, OED is not the only source of independent evaluation. Thanks to OED and the Board, Management felt the need to create QAG (Quality Assurance Group). Although it reports to Management, it has proved to be highly independent and effective. And we have the Inspection Panel to help Management correct the mistakes that may have occurred in the course of its activities in countries, when there are complaints from outsiders. On the whole, there is quite an elaborate and carefully thought out system of checks and balances in the Bank.

The challenge has been for Management to realize that criticism is not necessarily damaging to the Institution. In fact, criticism is very wholesome, is very good for the institution because it leads to improvement, and certainly in the cases where people have been affected, Management itself should be happy that it can remedy situations that have arisen. I have witnessed a significant maturing of the attitude of Management in the last few years, particularly after the unpleasant incident with the Western China Poverty Reduction case. I believe Management has done some soul-searching and has realized that it's not the right approach to try and keep things in the dark. This has given a major incentive to improve risk management. What became clear from some of the major mishaps was that risk was not managed ex ante. There was no discussion at the top level of very risky projects, and then when something went badly wrong there was fury at the top, but in fact the institutional mechanisms were not there that forced the lower level to report to Management about what they intended to do and to think carefully about not only the benefits but the possible costs if things went badly wrong.

Q: OK. Do you wish to add anything more on this? Following through on this--and you've already talked about it--in view of the fact that both OED in its evaluative function and the Inspection Panel as a fact-finding body both report directly to the Board, how do these two independently set up bodies affect Board relations with Management?

STEK: Yes. We have been trying to achieve, particularly with the Inspection Panel, that they have a more regular interaction with the Board and with Management. I've organized sessions, lunches or teas. Now the corporate secretariat has the task of organizing--twice a year, I think, is the agreement--a briefing for the Board. And I try to get Management to remember to put the

Inspection Panel on the list for distribution of documents and to invite them to sessions that are important for them. We need to continue working on that, to institutionalize it. It's very important that they are not regarded as a body foreign to the institution. They are part of the institution, too.

Q: What should the Board look for in selecting the leaders of these two bodies (Inspection Panel and Operations Evaluation Department)?

STEK: Well, in my view, the right kind of personality is a person who is independent but not adversarial, a person who cannot be intimidated and who is able to inspire his people not to be intimidated. The point is not that these people should be brought in from the outside. There are significant risks, as a matter of fact, in bringing in outsiders, because it may take them too long to understand the Bank, which is a complicated place. That doesn't mean you should not have outsiders, but you should be very careful in weighing the advantages and disadvantages. The example of Bob [Robert] Picciotto as the DGO [Director General, Operations Evaluation] is a clear example of somebody who had had no education in evaluation but was extremely knowledgeable about the Bank, very intelligent and very independent and able to take hits without cowering.

OED has a significant number of very good people whose analytical capacities are strong; many of them have come internally from the Bank, some of the outsiders are also very good. You want a mix of outsiders and insiders. An example of a good outsider is Catherine Gwin, whom we attracted after the ODC [Overseas Development Council] collapsed. That was a strong American think-tank on development issues, and I'm sorry it collapsed, but at least we acquired her. As you may know, she did a very good job on the IDA evaluation. So you need good outsiders and insiders so that they can cross-fertilize, as it were. Even though the levels below the DGO himself are allowed to go back into operational staff, this does not undermine independence. That's not my experience, anyway, going by what they write. Ultimately, the only way to gain the respect of Management is to do your job well, and the good people in OED can get back into the operational staff in responsible positions.

Q: What do you think of the systematic learning of lessons in the Bank as an input in policy formulation? What does the Bank learn from OED's evaluations, the Inspection Panel findings, QAG?

STEK: The interaction with OPCS [Operations Policy and Country Services] is very constructive when OPCS has a good vice-president. I thought Joanne Salop worked very well with OED, had a full understanding. You do need somebody who has an interest in improving the products of the Bank, and I think Jim [James W.] Adams is also looking at this in a constructive way.

I believe that the desire to learn is quite strong. That desire arose when the Wapenhans report had come out. It was clear that a lot needed to be learned and that the Bank was inflicting wounds on itself by not performing as well as it should. That has brought internal learning into the forefront of the agenda, so I'm reasonably happy about that.

Also, the integration of WBI [World Bank institute]--the former EDI [Economic Development Institute]--into the operations of the Bank is important. It used to be a sort of separate planet, and it no longer is. Further work still needs to be done, and with Frannie Leautier as the Vice-President, I'm sure that progress will be made.

Learning is also promoted by the discussions in the Board. The Board has an open eye for the need for that, and stresses it quite often, so I'm not dissatisfied with the incentives.

Q: Is there a culture of learning in the Bank?

STEK: There is a reasonable culture of learning, let's put it that way. There are also constraints. I mean, budgets and time are scarce, and I think the major internal problems of the rapidity of reform, or lack of it, are due to budgetary and time constraints. There are also personnel constraints; in the area of human resources, there are weaknesses which are hard to handle.

Q: How do you see the evolving issue of the Bank's policy on disclosure of information, and how is this viewed by both borrowing and non-borrowing countries?

STEK: Well, the Bank has become a lot more open in my time. It's quite far advanced, as a matter of fact. I think the clamor in the outside world for complete transparency is misguided, because, after all, that might lead to politicization of the debates, and that would be a terrible result. The confidentiality of Board deliberations is essential, and I can understand that Management at the early stages of its decision-making does not want to bring out its internal debates. But the documents themselves are about issues of public policy, so the outside world is right to ask for timely information and disclosure.

In IFC [International Finance Corporation] there are separate problems, of course, of corporate proprietorship or proprietary information. And they need to be addressed very carefully, but I think there too progress has been made, and will continue to be made. We just had a case on Chad/Cameroon where it was found that it would be possible to give some of the information about the contracts and the analysis that led up to the contracts, without damaging anybody.

We are moving in the right direction, and by now we're reasonably transparent. There may be some more distance to go. The borrowing countries sometimes have difficulty with it because they are not always at a stage themselves where their own internal proceedings are transparent to the public, so there may be a difference of attitude. But the Bank cannot escape from the issue and needs to discuss this with the borrowing countries and make it clear to them that it even could be to their advantage if they are more transparent themselves.

Q: OK. Would you say that the opening up of the Bank was inevitable due to (a) the advent of technology, (b) pressures from NGO's, (c) the man at the helm, or perhaps a combination of all three factors? What, in your opinion, can be attributed the most to the opening up of the Bank?

STEK: The man at the helm is very outspoken and forceful and has given major incentives to the institution. It would be a waste if you didn't use that to make yourself more accepted in the outside world. On a parallel track, it's very sensible to be more open if you're reasonably satisfied that you're performing well. There's always the suspicion if you're not disclosing that there might be something to hide. It's as simple as that. And we don't have all that much to hide.

What were the other two?

Q: The advent of technology.

STEK: That, of course, has played a major role. A major difficulty, still, is the language question, as you may have heard from some of my colleagues. They like disclosure, but they think disclosure is not all that effective if it's in languages that are not understood in places where the disclosure might be useful. There is a real question here, whether there shouldn't be more budget for translation.

And what was the third?

Q: The third is pressure from NGOs.

STEK: They’ve played a useful role, although they go to extremes in what they ask, but we can deal with NGOs.

Q: What in the implementation of the CDF principles do you see as most effective in the Bank's renewed commitment to fighting poverty and in helping the international community meet the Millennium Development Goals?

STEK: I would say the stress on the need for ownership and the stress on the need for selectivity between all the potential activities that could be undertaken in a country. The latter part still needs to be stressed all the time. The four institutional columns, and particularly three of them, are extremely important as priorities that need to be addressed in many countries, and they are a condition for the other activities to be successful. That was brought out already at the analytical level in David Dollar’s works, which provide persuasive evidence that countries that are not willing and are not able almost by definition do not do well, but it’s good to see that statistics prove that. That’s made the Bank focus much more on the framework within which activities can be successful, and it's made the Bank also realize that once you have created that framework, you might as well give programmatic loans because the country by that time has acquired a structure that enables it to deal reasonably sensibly with these loans.

Let's never forget that it's not perfect in the non-borrowing countries either. There's always this tendency to look at the imperfections, but you should compare the imperfections with a level of imperfection that exists in the Part One countries, too. The CDF has been extremely helpful in stressing ownership and selectivity. The participation and partnership items in the CDF are important, but somewhat less so. Ownership is very difficult, of course, both to measure--although OED has its ideas about that--and it's also difficult from the point of view of attribution of responsibility, once you say it's not the Bank but it's the country, or it's not the partners but it's the country itself that has responsibility for the performance to a significant extent. So you have some challenges there of attribution.

However, the real challenge for the Bank is to believe in ownership itself. That means that, before shoveling out the money, it should continue the dialogue on essential points until it really believes that the country understands what the issue is about and really regards something as a priority; otherwise, if it's not to be too facile in the approach to the dialogue, there is a danger here from decentralization, which is not fully realized. Decentralization was necessary because of the client orientation that we're trying to achieve, and it's an element in bringing about ownership, but also an element of challenge for the Bank because a decentralized Country Director may be too accommodating at a certain point and the Bank may lose consistency in its approach across the various countries. In my view, it's essential that decentralization be accompanied by controls on quality from the center, and I'm not quite sure that that is fully the case yet.

At the same time, one of the problems of the Bank is the complaints about its slowness, implying a high cost of business for things to ripen before really doing something. However, my experience is that the countries themselves are often to blame for delays, but there are also problems of Bank procedure which make the whole process rather laborious. Empowering the local person to do a lot is very good as long as the controls are in place in the center and applying the controls does not take too much time.

One of the more successful Country Directors from my group, with difficult countries, stayed in Washington but empowered the Country Manager (who used to be called the Res. Rep. [resident representative]) to do basically almost everything, but insisted, of course, on being briefed online about what was going on. That, in my view, is possibly a better structure even than decentralizing all these Country Directors to the field. Because the Vice-Presidents are overburdened, they cannot deal with everything at the center, and the anchors who deal with countries and are meant to establish the link between the countries and the center are also overburdened. Now, it's not quite clear whether this is because of the impossibility of dealing with a lot of countries or whether it's because they're not senior enough. There are also budgetary issues here, and there are various ways of approaching this, but I have a feeling that the optimum has not yet been reached. It's much better than it used to be, but these challenges to the effectiveness of the Bank still exist.

Q: How well has decentralization worked in bringing the Bank closer to its clients, and how effective is it in promoting greater policy dialogue, in view of the fact that the Bank has greatly decentralized since the strategic compact in 1997, where a third of the total workforce is in the field?

STEK: In my view, this needs to be evaluated. It's very hard, offhand, to give a judgment about which one can be confident. I have the impression that Country Directors in the field tend to do a good job. They're committed and hard-working. But I do have a sense that the center loses too much influence and that the cost/benefit relationship has not been looked at very carefully. I don't think the study on decentralization by Management took into account the cost side adequately. It was more an advocacy than an analytical document.

Q: How would you assess the Bank's various instruments in improving client engagement: CAS (Country Assistance Strategy), PRSP (Poverty Reduction Strategy Paper), and HIPC (Heavily Indebted Poor Countries)?

STEK: They are good instruments. I mean, the CAS and the PRSPs are essential. The CAS is, of course, the Bank's business plan, although originally it was a sort of hybrid when it was not yet clear whether the country could have a separate view or whether it had to be integrated into the CAS, into the dialogue. But as soon as the CDF came out and the PRSPs developed, it became clear that you could have two different documents, a country priority document and a Bank business plan. In middle-income countries, of course, you normally have an economic program of the government within a budgetary framework. Similarly, the PRSP is a country-owned document--or is meant to be--with all the challenges around that. But the CAS is the Bank document, and that's a good structure. We try to have a similar mental framework, without the detailed monitoring, for middle-income countries.

The HIPCs are separate. They, of course, do have their PRSPs, and they have been forced into thinking about their situation very carefully due to the difficult circumstances in which they find themselves. But the Bank itself, and the shareholders particularly, have been arguing for a long time about the degree of detail, of conditionality to apply to the HIPC countries. We have the micromanagers like the U.S., who want them to follow instructions almost on raising their expenditures in certain fields, with a certain tendency from that side to ignore the larger picture, and the other countries that want public-expenditure management to be at the heart of the reforms of such a country, in principle leading to adequate budgets for education and health and social protection within the broader framework of all the prioritizations that need to take place in a country. Those are two very different approaches to these countries, and that's a debate between shareholders in the Board.

Q: OK. On the importance of insulating the Bank's lending decisions from politics and ideology, while it is widely thought that the Bank is excessively influenced by the G7 and in particular the U.S., in your opinion, how well-defined is the Bank's role on good governance?

STEK: I think there are two issues here. Yesterday we spoke about my experience of politics in the Bank. At the more general level, I think one does encounter pressures to be too generous to countries, not to be selective enough when countries are in fashion, and it is damaging to the reputation of the Bank when, in retrospect, it proves that you've been too generous and that the money is not all that effective. But there are also the much more conspicuous cases of politicization, where a country gets excluded. I mentioned my personal experience with Croatia; it got frozen out for a while, and there are other cases too. But these are all at variance, both giving too much and giving too little, both are at variance with the principle of equal treatment, of non-discrimination, which is enshrined in the Articles. These are insidious threats to the Bank, and yet the political pressures are so great at times that the freezing out of countries does happen, which, looked at purely from the point of view of the Articles, is not acceptable, unless, as a specialized agency of the United Nations, we ourselves have to abide by a resolution of the United Nations or a decision of the Security Council.

We already talked about pressure groups outside the Bank, and the G7 is one of those. As I also said yesterday, thank heavens they frequently disagree. But the U.S. does sometimes try to browbeat the others into following certain patterns of behavior. That is a problem. There is a power relationship here which is simply very strong, and other instruments may be brought into play in the debates outside which are not instruments that you would learn about openly. I mean, that's familiar in politics, the mixing up of issues which should not be mixed up, like the sale of planes, if you want to achieve optimal, undistorted outcomes for what the Bank is doing.

Also, good governance is extraordinarily important for the effectiveness of what the Bank does. I already spoke about David Dollar and his colleagues. I also spoke about the institutional columns of the legal and judicial framework. In all my borrowing countries there are problems with the legal and judicial framework. Many of them also have inadequate financial sectors, which is also a column, and the acceptance and the cohesion of a society, which is very often a determinant of the outcomes for such a country, is related to the social protection column. Good governance, as you use it here, is shorthand for corruption. While I think that it should be used in a wider sense including corruption, it's a good thing that Jim Wolfensohn has brought corruption itself onto the agenda, a very good thing. It's extraordinarily important. It's hard to handle, but it needs to be discussed frankly, and it should be an element of the selectivity of the Bank between countries, whether the governance in the sense of corruption is undermining the way a dollar is spent. A dollar that goes to some outside account is obviously not a useful dollar.

The Bank's formal approach to this is very correct. First of all, the Bank has become much more focused on internal monitoring of its projects, and that has proved to be highly necessary. The astonishment Wolfensohn voiced on arriving in the Bank and hearing that corruption did not exist in the Bank is well-known. It has proved necessary to examine ourselves very carefully, and it's good that we find cases and to pursue them and prosecute the culprits, if you can find them. The next level is the countries, and if we're wasting our money there, even though the project itself may be fine, then we shouldn't make too much of an effort in such a country, except to try and educate them. And if there's total unwillingness, you should not work in a country. All in all, the Bank's policy has improved enormously in this respect.

Q: You might have touched on the next question, but I'll ask it anyway. In view of the importance of legislative oversight of the executive branch for government transparency and accountability, the Bank is increasingly supporting work to strengthen legislatures and develop them as institutions. What is your assessment of these efforts?

STEK: Well, we recently got some brochures, booklets, from the Legal Department. One of the issues in the Bank is whether the Legal Department should have an operational function, whether that would not imply a lack of separation of functions that would be inappropriate. Anyway, at the moment, they do this work, and I've asked for a Board discussion of this, and it's taken some time for it to come on the agenda. It's not happened in my time. I've been asking for this because it's obviously necessary to evaluate carefully whether we're doing a good job. It is also an area where partnerships are important and where the Bank may not have the right number of people and perhaps not even the right people to do this work at the best possible level. So I have to abstain from venturing an opinion at the moment.

Q: OK. What of the Dutch trust fund?

STEK: Clearly the Dutch government attaches importance to the issue, as the Bank itself does, but also some Dutch universities, particularly Leiden, are involved in helping countries to create a civil code that is up-to-date. I simply cannot judge how effective this has been.

Just one more remark on the previous issue. I said that all my borrowing countries have problems with it. I just want to say that it is my impression that with or without partners, it's taking very, very long to solve them. I believe I can safely generalize from my countries to all borrowing countries. It is totally essential to do a lot of hard work, and it is my impression that insufficient funds and effort probably are still being devoted to that issue. Because the private sector cannot flourish where there is a lousy judicial system, and if that is compounded by a bad legal system, or the other way around, then the situation is even worse. And we need the private sector, obviously, to start things up in a meaningful sense, because the Bank has rightly come to the conclusion that its own efforts are very small relative to the size of the challenge, whether one measures it by the Millennium Development Goals or in some other way. It needs to be done in partnership, and it needs to be done particularly by catalyzing private-sector flows to difficult countries and difficult sectors. If we don't work on this catalysis of private-sector money, we'll not be successful. So my sense is that the challenge is still not being met.

Q: The Bank, in its role as key broker in an increasingly interrelated and interconnected world, has launched major initiatives to address a number of emerging challenges, including helping to bridge the digital divide (e.g., Global Development Gateway, Global Development Network, Distance Learning, et cetera). In your opinion, how effective is the Bank in its analytical and advisory role, as evidenced from recipient countries and their policies?

STEK: That's one of the areas of scaling up; the private sector helps to scale up; ownership helps to scale up; knowledge dissemination helps to scale up in finding good practice at the global level. The Development Gateway has major challenges because initially it was caught in a bind between censorship and quality control. It didn't solve that issue. I'm not aware of the latest situation, but there was a lot of trash on the Gateway. I remember the glee with which the Saudi Director asked the U.S. Director whether she had looked at the U.S. page, which was loaded with human rights abuses, according to people who had brought that into that page. I always regretted that the Gateway was not made a better Gateway in the sense of saying, “Look here for this, look there for that,” and instead tried to accumulate all the individual items in its own database.

Without quality control, I don't think that is the best way forward. Perhaps it's further advanced at the moment--I lost interest a bit, although I know that Mr. Wolfensohn regards it as extremely important. The potential is indeed enormous. The Global Development Network probably has been more effective, although I'm speaking simply because of the presentations that we've had, and I haven't checked with outside researchers, whether they really are happy about this network or not. Distance-learning is also very important. It's being used a lot, including in my former countries, and I think that it is really highly effective in making learning, science and best practices available to people who otherwise could not afford it.

Q: So, in sum, how effective is the Bank in its analytical and advisory roles, as evidenced from the countries and their policies?

STEK: Well, the QAG and OED evaluations of technical assistance are reasonably positive, but I think there's some way to go still. If I recall, the outcome is that there are still weaknesses, particularly in screening what is made available and screening how it is used. The fact that it is being screened and measured as well as possible is very important. I would say this is an ongoing process of improvement. We've had major improvements already in the quality of projects, as you know. Their satisfactoriness has improved enormously; however, there remain major challenges for programmatic and adjustment loans. One has to measure their effectiveness, which is highly dependent on the quality of analysis and the acceptance of analysis and advice. These challenges have not yet been solved, but the work is ongoing in OED and in QAG.

Q: In general, what is the feedback from recipient countries on the advice we give them?

STEK: They are happy with the advice often, and while I'm not one of those who say that prices need to be increased vastly for ordinary Bank products, I do think advice should not be for nothing beyond the very basic stuff about how to audit yourself and that sort of thing. If you don't pay for advice, it doesn't get owned. Then you say, “Oh, well, if you want to write about that, go ahead!” And then you put it in the bottom drawer of your desk. It has to be asked for and paid for. As an economist, I think that is one of the better incentives to make people value what they get.

I think the Bank itself has a problem in its quality. First of all, the Bank has lost a lot of good people because of all the major changes in the Bank, where there was a sort of interaction between all this change and the uncertainty about it and the seeming criticism of the past and the move away from, let’s say, pure engineering and economic technocrats to programs that were more strongly based on client preferences. That has led to the shedding of a lot of quality from the Bank in the technocratic sense. I don't think it's been made up for with the influx of young people, and it was impossible for the remaining old guard to train these people rapidly enough. The Bank has a real quality issue which it needs to pay attention to.

The quality problem is also related to the budget. The fact that we have not had a capital increase with a paid-in portion for a long time is constraining the budget a lot, because if you invest the paid-in portion, you have more scope for increasing reserves, for provisioning, but also for increasing the budget. This has been one of the most impossible issues to discuss with the U.S. and some other G7 members. While they were rightly critical about the effectiveness of the Bank five, six years ago, that time is over, and now we're being made less effective than we could be by being starved of resources. And analysis and advice from inside the Bank are quite cost effective because then you don't have to pay as much as for outside consultants, who often charge outrageous rates.

Q: What is your assessment of the Bank as purveyor of global public goods, e.g., CGIAR [Consultative Group on International Agricultural Research], GEF [Global Environment Facility], et cetera?

STEK: Well, it's moved into this area, and it's absolutely the right thing to do. It is seeking how to be effective in the field of health and knowledge transmission.

And one of the most important ones we've moved back into is trade, of course; in fact, that's one of the things that I personally take some pride in. Our chair has helped to bring trade back onto the agenda. The Bank sadly allowed it to lapse, and lost a number of very good people who were at work in DEC [Development Economics Vice Presidency], but we managed to increase the budget about a year and a half ago, and now it is back on the agenda. The Bank is writing very good stuff, and it's essential that the Bank deals with the issues between developing and developed countries in a balanced way to try and influence the blinkered attitudes of many countries, a number of very prominent countries particularly.

Q: What is your assessment of the Bank's current strategy on the environment, increasingly viewed as moving beyond safeguarding to improving the environment?

STEK: This follows logically from the global public goods, of course; climate and biodiversity are important elements. It's not quite clear whether the Bank itself should be a major player in biodiversity, not because it's an unimportant product, but if it can be done well by others, it should. But the Bank needs to be knowledgeable about biodiversity and know what to do in its own projects that affect the environment. Our safeguard policies are very important in this respect, forestry and environmental safeguards and what not. The Bank's strategy on the environment has improved a lot.

The strategy paper is an important one, moving towards mainstreaming of environmental concerns in a significant sense where that is relevant. It has become clear that environment is not a separate sector. It's a cross-cutting issue much more than a sector, so while the purely environmental projects do have a right to exist, they are not the most important part of the environmental program of the Bank. That is made very explicit in the environmental-strategy paper, and the responsibilities are nowadays set out in strategy papers much better than in the past. There are accountability frameworks, and there's been extra budgeting because the monitoring aspect. The M & E [monitoring and evaluation] aspects of much of what the Bank has done were always weak, and they required budget. Even if you have the right principles, if the task managers don't have enough budget to do it well, then you are nowhere. For the environment, we now have a quality control unit. So I'm quite happy about the improvements in effectiveness that have been achieved.

Q: On the subject of aid coordination, President Wolfensohn has recently decried the terrible management plaguing development aid, emphasizing that fragmentation of donors' efforts has long hampered its effectiveness. How would you assess the Bank's various mechanisms in coordinating and mobilizing aid resources through trust funds, consortia and consultative and aid groups, especially in view of the decline of foreign aid?

STEK: You can even make up by increased effectiveness to some extent for a decline in foreign aid. The crucial point is that a lack of harmonization between donors makes life impossible for many countries. You get the wrong kind of vested interest in the segmentation between all these donor bodies. The Netherlands Ministry for Development Assistance through my predecessor, Eveline Herfkens, when she became a minister, had this as a major item on the agenda to try and improve coordination between donors in order to enhance effectiveness and make life tolerable for the recipients. That's one of the reasons why the sector-wide approaches have come to the fore in the agendas of some of the donor countries and the Bank is collaborating with them experimentally in a number of countries and a number of sectors, particularly education in Tanzania, if I remember correctly.

The difficulties are that you need to have a coordinated approach across the whole spectrum of documents that are required by all the donors. Everybody is supposed to be reasonable, but the product needs to be acceptable in terms of one's own standards and criteria. All these countries have their own Court of Accounts, the Bank has its own rules, and the Bank itself, it appears, is one of the more rigid ones in these partnerships. I know that the European Union is not easy. They are very legalistic, so there are big challenges, but they are being worked on. The work is serious, and the pressure from donors like the Netherlands is very strong. All in all, we're moving in the right direction, but at a rather slow pace.

Q: What about on the institutional level within the Bank?

STEK: I believe that at the highest level the Bank agrees that this should be done. Whether the pressure is strong to proceed fast, I sometimes doubt that, but the work that is ongoing is serious. I don't think the Bank is dragging its feet, but it's not making this a huge priority, let's put it that way.

Q: Well, in your opinion, how successful is the Bank in coordinating donor activities with its partners: the UN, the IMF and others?

STEK: The improvements have been enormous, of course, particularly with the IMF. Perhaps this is also due to the fact that the IMF and the Bank were at risk if they didn't behave. They can brilliantly present themselves as collaborating all the time, and of course real life is rather different because personalities can clash. But the fact is that in the joint staff assessments of PRSPs and in other efforts they do work together quite well, and of course the Concordat of 1989, drawn up after the Argentinean disaster in their relationship, has led to major improvements. They do talk with each other all the time at the requisite levels. Still, in the field a lot depends on personalities, as one can have difficult people on either side. That's why collaboration needs to be a question of continuous management attention. My experience in my countries is that there are still quite frequent glitches and lack of understanding. While I originally was very much a Fund man, I do find the Fund rather overbearing in many cases, and moving to its conclusion--often irreversible--about what should happen without taking sufficient account of the deeper underlying structural issues which are important to the Bank.

Q: How about Bank coordination with the UN?

STEK: That depends very much on the coordination in the field and at the highest level. It's good because Mr. Wolfensohn and Mr. [Kofi] Annan get on well with each other. At the lower levels, it's less easy at times, and the Bank tends to be rather threatening for the UN. The UN may be a bit less well-organized than we are sometimes, so that they are also difficult partners, and then there's a tendency for the Bank not to talk all the time because you may be spending a lot of time, more than you can afford. However, it's clear that they need each other. Progress has been made, and I think will continue to be made, particularly because global public goods have now become so important on all our agendas.

Q: How would you assess the Bank's ability in aligning staff skill mix with its strategies and priorities? Is the Bank still able to retain its competitive edge in attracting the right caliber staff and to regenerate itself through a higher rate of turnover?

STEK: I don't think that the Bank is brilliant in aligning the staff skill mix with strategies and priorities. I am not aware of a careful evaluation. That would be very useful. I have already spoken about the budgetary constraints and about the incentive system indirectly from the angle of Human Resources. I'm not very impressed by the Bank in that respect. I don't see all that many giants anymore among the higher levels, so I feel that the Bank needs to restore a lot of quality at the mid- and higher levels of Management.

For a while its Young Professionals Program was cut back so much that it became ridiculous. I'm not sure, but I think there's been some increase again from the minimal number of a few dozen to something that may be significantly higher again. It's also important that a guarantee of a job after successful completion of the Young Professionals Program has been restored again. I thought it folly to abolish it, incredible folly.

I never was on the Personnel Committee, so I follow this at some distance, but I'm appalled by the rigidities in our Human Resources Department and the lack of integration from a policy point of view of HR with the real issues of the Bank. I hope Kathy [Katherine Sierra] can deal with that. She is sensible, but as in many countries and ministries these are often weak departments.

Q: How much is the Bank's organizational culture amenable to letting go of certain habits and customs and just moving on in line with its priorities and strategies?

STEK: It's hard to generalize. I've met many staff working in my countries who are absolutely driven by the needs of the country and are very idealistic. Yet one does, at a somewhat more aggregate level, sense that there are resistances in the organization. But if somebody were to ask you, “Tell me about examples where you encounter this,” then you would have to think very hard to say, “Yes, I remember how totally wrongheaded the Bank approach was in those cases.” I don't think there are that many cases, except due to inexperience and lack of leadership. The people who come to the Bank are very often the right kind of people, but they require leadership. When we talk of behavioral change, there used to be the issue of arrogance of the technocrats. I think that is largely outdated now. I don't feel that is a big problem, although one does still have the occasional complaint from a country about the high-handedness of some sector person or some country economist. I feel that it has been impressed upon the Bank staff that they need to listen very carefully and not to try to impose their own views without having done that.

Q: Moving on to the Bank Presidents. What is your assessment of President Wolfensohn and his mission so far? Since you came here when Wolfensohn had just came on board . . .

STEK: I think he had all the right ideals to make the Bank survive in a very unpleasant environment for the Bretton Woods institutions, so I think he has redirected the Bank in an absolutely essential way. And I forget whether we discussed it earlier, but there was a time lag internally before the organization adjusted to all the changes in the external approach to the clients. There was a significant time lag, which created a lot of frustration in the Board, and created some frustration with Mr. Wolfensohn himself because he felt that the Board wasn't supportive enough and complained too much. Those problems are largely over, and I think the relationship is much better. This is also related to the two-hats issue which we discussed earlier, so he has major achievements to his credit; in fact, achievements of such significance that the Bank is in a much better position vis-a-vis the public at large, its clients and its shareholders.

It's not easy to say, even if you want to, that the Bank is not doing a reasonable job and doesn't have persuasive reasoning at hand for those who would like to undermine it, like the members of the [Allan H.] Meltzer Commission who wrote the majority report. It was a totally stupid report, by the way, written by people who had better knowledge, I think, of how the IMF worked than how the Bank and IFC work. So my assessment is pretty favorable, particularly the fact that we have a checks-and-balances system in the institution, a constructive one that is working with OED and the Inspection Panel, as we discussed.

Q: Yes. What should the Board of Governors and EDs look for when seeking a successor to Wolfensohn?

STEK: Somebody who continues with what Wolfensohn is stressing at the moment, that now we’ve reached a stage of implementation. We really believe that we are working within the right framework for achieving effective development. Now the challenge is to implement. I think that is true as long as one keeps the framework in mind all the time. So when looking for a successor, we should find somebody who understands the framework, is inspired by it, is deeply interested in bringing about development in the world and bringing countries on a more equal footing in the interests of prosperity and security and, ultimately, peace, and by coping with the danger--the two billion that we keep on talking about that will be added to the world population within the next 25 years and of whom 99 percent will be in poor countries--that they don't have a future. We need somebody who really understands the enormous significance of these issues and who is also willing to drive the institution to implementation and inspire all the bodies in the world and the shareholders to subscribe to that agenda.

The Bank has a major advocacy mission and a major implementation mission for the next period. We're off to a reasonably good start, but I do think that a capital increase is essential, given the enormous risk which is absorbing such a lot of our gross income at the moment in provisions and of our net income in reserves. The need for reserves is so high because the riskiness of the portfolio has increased so much, and that leaves very little leeway for doing what we want and need to do.

Q: In your view, how well has the Bank responded to the global agenda, and how do you see its evolving role and continued relevance on the global stage, in terms of long-term challenges?

STEK: It helped to create the global agenda, so I think the Bank is responding to what it believes itself, and I think we are extremely relevant on the global stage. The world would be a much more dangerous place without an institution like the Bank. I believe our founding fathers had incredible foresight in creating an institution of this kind with its system of global rule of law, which is not understood all that well by a number of present-day shareholders. They really had the right idea in mind that we're all in this together. That was what the founding fathers appeared to understand.

Q: How should the Bank respond to its critics?

STEK: By its performance and, of course, by a good public-relations department, which is able to tell the truth based on a good performance.

Q: Looking back at your six years in this institution, what stands out as the toughest issue you had to handle at the Board and the most successful?

STEK: Let's see. In the narrow sense, the Iran loan was a tough one for me to handle at the Board, but at an institutional level, that was an incident. Bringing trade back to the agenda was very important, and it was successful. Trade is simply more important than aid. The dangers in that field are still enormous: that Doha will not be successful, that narrow interests will prevail. That would be a true disaster. The countries that want to make up through aid what they are not doing in the field of trade are deeply hypocritical and totally misguided, even about their own interests, which they don't appear to understand. Trade is an incredibly important item on the world agenda.

Q: What do you see as your contribution to the Bank as a Board member? And at the same time, what have you learned from your experience at the Bank?

STEK: These are difficult questions.

Q: That's why we leave them for last.

STEK: I've tried to take the Bank seriously, and that has not been difficult because I felt the issues were very important. I've tried to contribute to the debate by being very outspoken at times, simply also telling other chairs very directly if I did not agree with them. I have a feeling that that was, on the whole, appreciated. We did not work from prepared statements very often, so I was writing what I wanted to say during the meeting, and that has been helpful, I think, for the atmosphere. And what I've learned is the complexity of development, of life in general. Towards the end of my career, it has been a tremendous enrichment to move away from the somewhat narrow focus of a central bank--a very legitimate focus, but a narrow one--and from a Finance Ministry, to become aware of how difficult development is and how it requires ongoing effort. So if you're going to ask me what the most important advice is to give to my successors. .

Q: Yes.

STEK: I see that in your list of questions.

Then, I would say develop a real interest in the issues that the Bank is tackling and give your very best. It's worth it!

Q: Well, thank you very much, Mr. Stek, for your invaluable contribution to the Bank's Oral History Program.

STEK: Thank you.

[End Session 2]
[End of interview]