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ORAL HISTORY PROGRAM

Transcript of interview with

RICHARD D. STERN

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Interview by: William H. Becker and Marie T. Zenni
Q: Good morning! It is January 18th, 2001, and I’m William Becker with the Business History Group and the George Washington University.

Q: I’m Marie Zenni, task manager of the Oral History Program.

STERN: And I’m Richard Stern, late of the World Bank.

Q: Very good. Mr. Stern, it’s very good to see you. And we’d like to start with some questions about your background, and the first is where did you receive your higher education?

STERN: My first degree was at the University of Southampton in England. It was a joint degree; half politics and half applied economics. That was in the mid-’60s. And then, after that, I went as a volunteer to Ethiopia with the UN. I’ll talk about that later. But then I came back and went to Sussex for my master’s degree, which was in development economics.

Q: Were there early experiences that influenced your later career?

STERN: Yes. The most critical and the most formative experience, I guess, in my life in terms of the development field was when I went to Ethiopia as a volunteer. In the last year of my first degree, I had several interviews with established corporations and firms. I decided I wasn’t interested in them, and they decided they weren’t interested in me. So I volunteered and went, just by chance, to Ethiopia and just by chance to work with the UN. I ended up working in the UN development office in Ethiopia. I had two main responsibilities: one, administering training programs for Ethiopians overseas given by the UN system, but probably far more formative and interesting in terms of my own career and philosophical development was my second responsibility: supporting training programs for Sudanese refugees in Ethiopia. So at the end of that period it was almost natural that I would move into the development field. I came back to Sussex and got a serious education in development. So I did it sort of back to front. I got the practical experience before the academic one. Actually, I think that helped me tremendously in later life. I think this unique combination of hands-on experience in the field and then putting it into some sort of theoretical construct was incredibly helpful.

Q: What drew you to consider working for the Bank?

STERN: It was a number of issues. The Bank, even at that time, was considered to be the preeminent institution in the field of both development theory and practice. Secondly, I happened to get to know Moody Burney, who was, I think, the Bank’s first representative to Ethiopia, who I met once or twice and encouraged me to apply. And then the YP [young professionals] Program was a well known program. So it was really just a natural to go in that direction. When I was at Sussex, my second year was financed through a studentship from ODA at that time--the Overseas Development Administration--so I was actually obligated under that program to go
and, I guess, work in the developing countries, with the expectation that it would be under British aid, but they saw the move to the Bank as being consistent with that. And I think I actually asked them for permission to do that when I got accepted by the YP Program.

**Q:** When did you join the YP Program?

**STERN:** November '70. I was in the seventh or eighth class of the YPs. So the program had been running for a fair bit of time. Some of the earlier YPs had become division chiefs by then, but no one had become director or VP at that time.

**Q:** At that time, could you describe the nature of the training you received in the program?

**STERN:** The YP Program has gone through several phases of “Should we train? Shouldn’t we train? Should it just be ‘hands-on’ experience?” And it has never really solved that dilemma.

The early YPs, if I recall correctly, all joined on the same day, or close to the same day. They had a two or three week orientation. And they did sort of stay together as a group. By the time I had joined, that had disappeared. We just participated in the same two or three day orientation that all employees had when they joined the Bank.

You should also remember that I joined the Bank during a period of rapid expansion. Just after I joined, the YP intake was doubled. The Bank was expanding so fast that we just basically threw everybody into the deep end. You got a lot of hands-on training, on the job experience, but not any formal training to speak of. In later years we put back more formal training, but the honest answer is that we never thought about it much at that time.

One of my biggest worries when I joined the Bank was wondering whether I’d come to the right place. It was a very conservative institution. The YPs that joined with me, I thought, were an incredibly conservative bunch of people. Now, we’ve got to remember it was the end of the ‘60s. Most of us--wells at least anybody I thought was sensible--had been on the streets demonstrating throughout the ‘60s. Most of the YPs didn’t come from that crowd. I was very much a part of that crowd.

I remember there was something called the Five-thirty Club, which was--well, it tells you about when we finished work in those days!--formed by a group of YPs, I guess a couple of years earlier. Typically they invited senior members of staff to talk to them about important topical issues. Now, in some sense it was good because there was some filling the gaps in the training that didn't exist for them, but in other respects it was very much listening to senior management—somewhat ingratiating, I guess, in terms of making themselves known to senior management! They all had suits and short hair, and my hair was do-n'to my shoulders. I only went to one or two of these meetings, and I didn’t like them. But I remember it was right after the annual meetings in Copenhagen, I think it was in 1970, and that was the first meeting that we had demonstrations on the street against the Bank, and William Clark, who was the vice president for external relations, was describing the antics of the demonstrators and belittling their ideas. The condescension of the YPs toward these demonstrators (many of which became mainstream Bank
thinking in recent years) was just palpable. And I was just sitting there wondering who are these YPs and why was I there. So it was a very different place at that time.

**Q:** Well, how did this experience with the YP Program influence your later career?

**STERN:** Oh, it was incredibly important! I guess in two main respects. One, as a YP, even though you weren't given formal training, you were given time to evolve and develop. People were pleasantly surprised if you could give some serious professional input in the assignments you got. But there was a sort of a paternalistic ambiance and view by your supervisors that you could say a few outrageous things. If you made mistakes, you were tolerated, which the non-YPs were not as they were expected to contribute in their professional area of expertise immediately. So that space or room, if you like, I think was incredibly important. A lot of my non-YP contemporaries felt tremendous pressure to produce right away, and I think in the end that constricted their development and evolution as broad-based development professionals within their area of specialization.

Let me expand on this. If you think about it, you can locate better experts in any particular field outside the Bank. In many respects, the Bank decapitalizes you in terms of your core professional competence. However, what is unique to the Bank is the multidisciplinary view which no other institution really has. A bank makes a loan, but it doesn't do all the thinking. The YPs in those days were thus able to become--because they moved between various assignments, because they were given time to mature and develop--evolve and embody the core competence of the Bank, whereas, some of the people who came in as technical specialists who were perfectly capable of potentially evolving into those broader people didn't do it! And I think that was incredibly important.

The other unique advantage that YPs had as a result of the rotational assignments was to be able to accumulate different experiences very quickly. So, I started off on East Pakistan and then onto water and rural infrastructure and then moved into East Africa.

In those days all staff received much more mentoring and coaching that they do now. Managers had time to do it, particularly in the early and critical formative years of new staff. And I was just very, very lucky. I had three people who influenced me tremendously. One was Ping Loh, who was my second division chief, and he taught me the importance of being practical and practicing the "art of the possible" with clients. And then there was Stanley Please, who was one of the first broad based thinkers in the Bank, passionate about the importance of country policy and the limits of the project approach. In fact, when we worked together in Tanzania, we did one of the first Bank program loans. It was a precursor of some of the things we did under structural adjustment ten years later. We didn't do it very well, but it was the beginning. Well, I'm exaggerating a bit. And then we did the ones to India, but they were basically check-writing. I mean, we didn't spend a lot of time talking about economic policy and structural change. The India ones were largely balance of payments support--I wasn't involved in them--but they weren't backed up by serious economic analysis, and then the more sectoral stuff that we did later on the structural adjustment loans. We started to try and do that in Tanzania, and Stanley was just incredibly important in giving that point of perspective. He was a pioneer in that respect in the Bank.
And then there was my third mentor, Shahid Husain, who was willing to combine Ping’s and Stanley’s perspective and take the risks to do it. I was just lucky enough in my first three or four years to work with them. And they were very supportive, but also again, as I said, giving you the space to make mistakes.

Q: Now, one of the objectives of the program was to provide a cadre of well trained young professionals who would look towards a long career in middle or senior management in the Bank. Obviously that’s worked in your experience. Do you think overall that objective has been achieved?

STERN: Well, it has, as a matter of fact, because I think since about the early 1980s at least fifty percent of our senior managers came through the YP Program. The numbers bounce a little bit, but I think the proportion of YPs in middle management is now around 60, 65 percent, something like that. So the program has done that. Whether we selected the right people in the first place and gave them the right training and experiences to prepare them for management is, of course, another matter. Until the last ten years or so the only people who could easily move across the Bank were YPs. But even that was fairly limited at the middle levels and didn't change until the mid-80s when some of the attitudinal barriers started to break down.

I was, I think, only the first or second staff member to move from a program department to a project department at a managerial level, and it caused a lot of ruckus at the time. It was when I moved from the Indonesia division to the Telecom Division. The Bank had sort of talked about these things that we needed to do that if we were going to create a true integrated management cadre, but no one had actually done it. I remember at the time I actually got a fair bit of support from Ernie [Ernest] Stern and a few others who were quite comfortable in my doing that, but these decisions were made by the department directors at that time--I mean the appointment of division chiefs. And I remember I went for several interviews in East Africa and West Africa and a couple of other places with directors who were just looking for excuses. They couldn't argue that I hadn't done well. But they were just looking for excuses about why you couldn't move someone from a more generalist country function to a project function. And it was only because Hans Fuchs, Director of the Industry Department, who was prepared to take the risk, that I became Chief of the Telecommunications Division.

Q: Do you think the original formula is still relevant today, in view of the professionals moving around from one profession to another in their careers?

STERN: Well, I would go back to what you think is the core competency of the Bank. As you know, we clearly are in trouble in some areas because we can’t provide, or are having difficulty in providing, state-of-the-art advice to increasingly sophisticated clients. So don’t get me wrong! I'm not arguing for a minute that the Bank doesn’t have to do that. But I also think that the unique contribution of the Bank is its ability to take an interdisciplinary approach so you can put that expert advice in that context. And having a management cadre that is able to internalize that, having a management cadre that has got enough experience at the broad macro level and enough hands-on experience at the sector, thematic and project level to be able to make the vital linkages, to be confident enough to conduct a credible dialogue with senior government officials.
is central. That, I think, is extremely important. And it doesn’t have to be YPs, but it’s got to be people who have been able to move around the Bank and development more generally.

One of the things that we are now trying to do—we’ve just introduced that this year because we revamped the YP Program a bit this year—is at least to put a bigger emphasis on looking at the way we’ve always tried to assess YPs in terms of their potential ability to move from one sector to another. We’re also increasingly looking at some of the behavioral aspects of YPs. I mean, do they have the humility and the empathy to become a CDF [comprehensive development framework] leader, to manage a CDF-type relationship, which is the way we obviously have to go. For the first time this year we introduced behavioral assessments, systematic behavioral assessment, as part of the selection process.

Q: Are there any other changes, do you think, that might be necessary to the program, aside from this move towards a more behavioral analysis?

STERN: Well, when I joined, most of them had macroeconomic type backgrounds. Then we went through a phase when they all had MBA-type backgrounds. Then we reverted to economics. In recent years we’ve been looking at how anthropologists would fit in—people who’ve done something a little bit different.

Q: Any historians?

STERN: No. I don’t think we’d ever dare to do that! A few sociologists, maybe!

Q: You don’t want to get that soft!

STERN: Actually, I think one of the most underrated disciplines is economic history. Many times over economic advice has actually been wrong; a study of economic history will teach you this very quickly and hopefully result in some needed humility. I think political economy is also very important. The French always called it political economy, but the neoclassical Anglo-Saxon world didn’t. They preferred the science of economics instead. I came out of school just when the triumph of econometrics and mathematical economics over “political economy” reached its zenith. It wasn’t that they didn’t produce excellent theoretical work, but it took us almost a generation to figure out that there was something more; i.e., that sound and political development we need is so important. And we suffered for that.

Q: You might have touched on this, but we wanted to ask in general how would you answer criticisms made over the years that many of the managers that came out of the YP program were perhaps short on practical experience, especially in terms of their ability to manage people?

STERN: They were certainly short of practical experience because all their practical experience had been in the Bank; although the age of the YP Program has increased over the years. When I joined I think the average age was about 25. It is now about 30. Most of them have got some serious hands-on experience in the field before they join. Actually I had volunteer experience. I think that was one of the things that stood me in good stead. However, it’s interesting that I
played down my volunteer experience early on in the Bank, not because I didn’t think it was incredibly relevant, but that was considered to be somehow a bit soft and woolly.

Q: But in the matter of managing people?

STERN: The technicians always said that they were undermined by their generalist managers, particularly the ex-YPs. And I mean that was genuine expression on their part. Whether it had any real validity, I think, is another matter. They felt that we often compromised on important professional issues and that their managers—many of whom were ex-YPs—could not withstand the institutional pressure to lend. They then concluded that this was the reason why projects failed. However, I think this is not a correct view. Many projects were failing but the reasons why were more to do with lack of institutional depth, lack of a professional civil service, corruption in many countries, and perhaps, most importantly, a lack of ownership. These things are mainstream now but were not at that time. So I would be careful of drawing certain conclusions. Did the absence of practical experience by some managers contribute to some failures? Absolutely, but not in the way that it's typically understood.

By the way, we always have been, at least in my view, a knowledge and learning institution. Let me give you an example. It was either the third day, fourth or fifth day I was here at the Bank, I walked into this fabulous meeting on rural employment creation in East Pakistan between John Mellor, who was one of the world’s leading agricultural economists, and a guy called Phil [Phillip Z.] Kirpich, an engineer who had drilled tube wells all over the world before coming to the Bank.

I just walked into this debate, and there was John Mellor saying, “You know, if you shadow price tube well construction rather than comprehensive drilling, then labor intensive is the way to go.”

And Phil Kirpich was saying, “Look, I’ve never seen a labor intensive well that hasn’t collapsed. In a rig you can drill a well in 24 hours; you can drill 3 as deep as you need to go. Furthermore, if you want to create employment, you can drill the well with a rig during the wet season and create more employment in the first dry season (through irrigated crops) than you can by drilling the wells in a labor intensive way.” They were both raising legitimate points and we were all learning.

I just sat there and said, “Wow! This is fabulous! These people know what they’re talking about, and moreover there's going to be some action by the Bank at the end of it.” So it mattered, the debate.

Q: So then, jumping way ahead here, the emphasis on the Bank as a knowledge institution is by no means misplaced?

STERN: It's by no means misplaced, but it's a great mistake to think that this is something new. It's always been a knowledge bank. Sometime during early '69 [Robert S.] McNamara must have announced some big expansion plans. Even then people then were complaining that it wasn't like what it used to be! But at 2000 and even at 3000 staff, as it was in the early 1970's, osmosis

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worked in terms of knowledge transfer. If you came across a problem that you knew nothing about, you just walked outside your office and shouted, "Does anybody know . . ." Most of the staff working on the same problem area sat together. You didn't really need formal mechanisms. When you went on mission with an interdisciplinary team, you smoked, drank and talked every night, and it was all about work and nothing else particularly. The knowledge transfer and knowledge building that took place was quite incredible.

When you went on a mission, you met every night. The duration of a mission was three or four or five weeks; you actually wrote letters home. So you invariably built up a very close knit team. The mentoring and the guidance that you got from your team was quite tremendous and incredibly important for your career development.

Q: We'd like to talk a little bit more about your career, more specifically your first assignments which were in East Africa country programs between '70 and '78. Do you want to add some more to what you've already said as to how these early assignments affected your thinking about development in the institution?

STERN: Yes. I mean, it was very important. One, it was in all three countries: Kenya, Tanzania, and Uganda. We made some serious mistakes. We got totally enamored by [Julius] Nyerere's revolution. I mean, he was an incredibly charismatic figure, and just his honesty, commitment, and his willingness to do things different and openly philosophize about mistakes that have been made in the past. He was incredibly compelling. But it was, you know, one of the first genuine attempts to target the poor, to take income distribution issues seriously. But one of the lessons I learned from that was you over-rule technicians at your peril; we did overrule technicians in Tanzania in the early '70s.

So when Tanzania forced "villagization," the agriculturists were saying, "Look, in Africa you don't have villages--for very good agro-economic reasons--and these programs are destroying that." The Tanzanian government also destroyed the cooperative movement because it was run by the rich farmers, so they were, therefore, targets. We learnt that you cannot substitute nationalized marketing and credit parastatals for coops because LDC [less developed country] governments don't have the human and bureaucratic capacity to handle it. The technicians told us that and they were dead right. We were beginning to understand the importance of coherent country strategy over a project approach, but we went overboard. So we made some spectacular, I mean really spectacular mistakes.

You've also got to remember that at that time we all had great faith in the ability of governments to correct for market failure. So, you'd have McNamara being perfectly comfortable with us supporting nationalized maize, forestry, pulp and paper, textiles, and shoe factories in Tanzania. We all believed that this was the way to go. Again, you've got to put it in that context. [Richard M.] Nixon had price controls in the early . .

Q: Right. In '73.

STERN: Working in Africa also teaches you that your chances of getting it wrong are extremely high. It forces you to be a bit humble. It is good to learn that early in your career.
Many in the Bank have great difficulty conceiving the fact that they’ve got it wrong. Because they’re really fairly bright, because they’re usually well trained because they go for analytical and logical approaches; how can they be wrong? There are lots of Bank staff far brighter than me and technically much better, but I was always willing to sit there and say, "Look, you know, maybe you haven’t got it right. I mean, not because I disagree with any of your logic. Your logic is impeccable, but you may be missing something!" I think that if you don’t get that fairly early in your career, then you crash badly.

Q: Well, what you’re saying is that culture is important and that culture is not necessarily a logical construct.

STERN: Yes. It's got to do with understanding, maturity, and self deprecation.

Q: We’d like to turn to--again, you've touched on some of these parts of your career already, but if you could talk a little more about the circumstances surrounding your appointment and some of your experiences as chief of the Indonesia Division in 1978?

STERN: Well, let me give you just some anecdotes to start off with. In those days there was no system for promoting people. There was something called a division chief’s list which was kept in the bowels of Personnel somewhere. But that list was a very long list. It was far longer than the number of vacancies that would come up in any given year. The patronage of the director and the vice president has always been important, but it was incredibly important in those days. It was a very hierarchical sort of place. Stanley Please, my director, and Shahid Husain, the VP [vice president] in East Africa, decided that they wanted to promote me. Ping Loh, who was the division chief for East Africa, was on his way to Indonesia was also very supportive, and so they decided they were going to give me the East African job. Then Shahid Husain went to East Asia and brought Stanley Please over. So then they said, "Well, why don’t we bring Richard over to the Indonesia Division?" And so it was just fixed, and I was off to Indonesia. There clearly was no real system.

Indonesia was a fascinating learning experience. On the substantive side I was dealing with a much more sophisticated set of counterparts than I had encountered in Africa. The “Berkeley Mafia” were running Indonesia’s economic policy. The “Berkeley Mafia” was fairly powerful because Suharto depended for his legitimacy on strong macro economic growth. It was the heyday of our work on the rural sector. We were lending something like $1 billion a year. Indonesia and Brazil were the largest Bank programs at that time. Agricultural and rural projects were about 80 percent of the total. McNamara decided to go for a rural poverty oriented approach. And we were doing it. We generated a whole series of agriculture projects for fertilizers, seeds, extension, and irrigation projects, and by and large they worked. The rural credit projects were by and large hijacked by the richer farmers. But the bottom line was during the 1970s through the mid-1990s, the portion in absolute poverty went from 80 percent to 20 percent. It was a remarkable achievement. Did we see the massive corruption? Yes. Did we talk about it with the government? Yes. Was it a key part of our agenda? No. We were heavily involved in the movement of the micro economy giving significant advice—along with others—to Indonesia’s economic managers. I would argue that Indonesia’s development was one of the great achievements of the Bank.

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The other interesting thing about Indonesia was the way that we ran ourselves. We had tremendous problems in running an integrated operation between the Bank and in Jakarta. Bernie [Bernard R.] Bell started the tradition of empowered Directors in the field. McNamara put him out there. Just to give you an idea of his rank, when Bernie came back from Indonesia, he came back as vice president for East Africa. The division of responsibilities between HQ and the Resident Mission was however very unclear. However, my own view is that in a multi-disciplinary organization such as the Bank, such “clarity” is always going to be somewhat obscure, so if you don’t recognize that, then you’re headed for eternal frustration.

Q: Would you say that’s one of the main things you took away from your experience in Indonesia?

STERN: Well, it was. The other was the importance of well designed programs and the impact they can have on poverty reduction.

By the way, I forgot to mention our pioneering Kampong improvement programs. There were revolutionary urban development programs. They focused on upgrading simple infrastructure: paths and drains. Once these slums were protected from flooding, the neighborhoods would just improve themselves dramatically. It was a pioneering program. Actually—and although we didn’t call it that in those days—we were building serious local ownership. And we did so in a very corrupt society. In the late 1990s such corruption became the major impediment to development in Indonesia, but we were able to accomplish a lot in spite of it at the time.

Q: Now, how is it that at the end of your term in ’83 you moved from Indonesia to telecommunications?

STERN: It’s an interesting story. It had been five years and it was time for me to move. I had worked on Africa and Asia. I felt I was beginning to get some geographical diversity. Career-wise it was possible that I might be able to get a program director assignment, but I was told, "Look, you really have to do one more assignment before you can become a program director." Personnel was also beginning to promote cross functional (programs to projects and vice versa) transfers for managers to prepare them for senior assignments.

By that time the operational managers review group (OMRG), which was a group chaired by Ernie Stern, who was the senior vice president for Operations, had been established. This is where they reviewed the performance of all the operational managers and discussed what their next jobs should be. OMRG decided that it would be a good idea for me to move to projects, and as I mentioned earlier, over the opposition of some middle managers.

Hans Fuchs accepted me as the manager of the telecommunications division. There were several people who said to me, "Why do you want to take that job? You are taking yourself out of the mainstream and you will slow your promotion." I am sure my promotion to director was held up for at least four or five years because of that, but it contributed greatly to my professional development.
Q: What were your responsibilities in this division?

STERN: Well, it was a global division, which, by the way, was one of the attractions because up until that time I had worked only in the regional complexes. It was considered to be the most technical division of the Bank. It was staffed by telecom engineers and financial analysts and only one telecom economist to give them an overview. The work of the division focused on technical evaluations of clients' programs and institution building of state telecom companies and procurement. Up to that time the division's biggest impact was probably in reducing the costs of procurement by insisting on international bidding. By happenstance, my arrival coincided with the early days of the telecom revolution. It coincided almost exactly with the breakup of AT&T. Competition in the provision of telecom services was just beginning to be introduced, and privatization was introduced as a core objective. By the time I left the division, we had recruited a bunch of economists and broader development types in there, and we were beginning to understand the new regulatory agenda.

Q: Well, then, how did you go from the Telecom Division to Chief of China, Finance and Industry, in 1987?

STERN: Well, first, the Telecom Division was actually located in the Industry and Energy Department and that's how the industry tag got sort of linked to me. It was time for me to move on because it had been four or five years since I last moved and, most important, the telecom division was eliminated in the 1987 reorganization. In the drive for country focus, all central sectoral departments were abolished.

Q: Organizationally it was fashionable at the time to decentralize.

STERN: That's right! I mean, decentralize, get closer to the client, and move to a demand rather than a supply driven agenda. I thought I had a good chance of actually getting one of the new country director positions. If I had actually remained as a country division chief, rather than have moved to a sector division in '82/'83, I think I might have got one. So I actually got my job through the informal personal network. There was no system. It was anarchy! Well, it was anarchy with war lords. It seriously eroded any faith of the staff in the organizational integrity of the institution. I had always operated under the assumption that you could be a bit quirky, but provided you were a good professional and seen to be good, the institution would always look after you.

Q: But you weren't alone in coming to that conclusion?

STERN: No. But, I had never worried, whereas other people had worried a lot about their careers, I had never bothered much. It wasn't that I wasn't ambitious, but you always felt that somehow you'd be alright. In 1987, I lost that confidence.

Q: What were your responsibilities, and what did you take away from that experience?

STERN: In contrast to most other Bank clients, China had an active industry project portfolio.
China was an economy in transition, and enterprise reform, particularly in the industry sector, was seen to be a critical part of the transition. We also had a whole bunch of projects in the fertilizer sector which were seen as providing crucial agricultural programs. We also became heavily invested in the first financial sector reform. It was still very much a command economy in 1987. The Chinese had spent the first eight or nine years of the reforms on the rural sector, so they were shifting to the industry sector. There was massive over employment in the industrial labor force in China at that time coupled with obsolete and loss-making enterprises. We became heavily involved in the first stages of industrial enterprise reform and restructuring.

Q: In 1991 you were selected to lead the Energy Sector Management Assistance Programme, or ESMAP, established in 1983. Why do you believe you were selected for this position, and what challenges did you face there?

STERN: Well, it was pure happenstance. I was promoted from the China division to become head of the Operations and Policy. However, I never settled down in that job, because after five weeks [Visvanathan] Rajagopalan, who was vice president, said, "Look, we have a serious problem with ESMAP. The donors which support the Programme are threatening to withdraw, and we need to draft someone in there quickly to clean up the mess and instill confidence, so I’m moving you in there.”

The ESMAP was set up in the aftermath of the second oil shock, around 1980. As a consequence of the rapid increase in oil prices, many countries had to rewrite their energy strategies overnight, get themselves less dependent on oil and into hydro, coal, energy efficiency programs. Many of them had to make substantial policy adjustments including difficult price and tariff reforms. Many countries also faced serious institutional problems with loss-making and inefficient energy companies. Many countries thus needed assistance to help them rewrite their energy strategies. So ESMAP was put together by the Bank and several bilateral donors. It was jointly sponsored by UNDP [United Nations Development Program]. It was basically a technical assistance effort, appended to the Energy Department at the time.

There was a lot of talk in the early ‘80s about whether we should set up a separate energy facility/organization. For a variety of reasons, for which I’m not fully familiar with, that idea was killed in the early ‘80s, but the idea of a joint TA [technical assistance] effort for the energy sector, embodied in ESMAP, prevailed. It managed about 50 or 60 million dollars a year worth of TA at that time. ESMAP continued to run through the ‘80s, even though the price of oil started to drop during the ‘80s. During that time ESMAP became less focused; e.g., it moved into rural energy, and it started to work in oil and gas. Its management coherence also started to disappear and donor disillusionment started to appear.

By early 1990, there had been a complete breakdown in communication between the Bank managers of the programme and the bilateral donors. Bank management was keen to work on issues relating to privatization. Many of the donors were more interested in rural energy and environmental matters. There was still a fairly substantial number of people working for ESMAP in the early 1990s, about 40 or 50 people for which the Bank was only funding about 25 percent. Anyway, it all culminated in a consultative group (CG) meeting in Geneva in late 1991.
And that’s when I got the call. So I became manager of ESMAP.

Q: And do you think it succeeded in meeting its objectives?

STERN: I think it did, but we had to change it dramatically. The first thing that I did was to ask for an audit. I also recruited a guy called Larry Smucker as financial controller. After about two or three runs, it became apparent that we were absolutely bankrupt. What they were doing was taking funds provided by donors for particular projects and using them for staff who were working on others, so we weren’t in conformity with trust fund agreements. First we had to refund the project accounts from the World Bank’s administrative budget, and then we had to scramble to rebuild the reputation of ESMAP vis-a-vis the donors so that the funds would start to flow again, and we could move on. So that’s basically what I did for that first year and a half: basically put together a coherent strategy for ESMAP and reestablish donor confidence. We had to submit ourselves to all sorts of reporting and monitoring and a great deal of donor interaction. In the end, we developed a clear and comprehensive strategy which included a fair bit of work on rural energy and the environment.

This is not an easy dialogue but in the end I think it beneficial for the Bank. Other donors often recognize important issues before the Bank does. For example, we could not have written the rural energy strategy paper in 1995 (I think) if it had not been for the work that had been funded by bilateral donors of ESMAP. I doubt the Bank would have ever funded rural energy work implemented by ESMAP from its own administrative budget.

Q: So, in other words, it's a device to give the Bank some flexibility?

STERN: Look, I’m biased, but the trust funds have always been a dilemma for the Bank. However, they have become a fairly significant portion of the Bank’s budget. Many trust funds have been very important in helping the Bank do the necessary ground which later results in a new policy.

We would have been in even bigger trouble on the environment. You know, the Bank came late to the environment agenda, and much of the environment agenda is energy. And, again, if we hadn’t done many of those environment projects with ESMAP, primarily at the instigation of the Dutch—because they were pushing a very strong agenda—we may not have been able to accomplish the late adjustment we eventually made.

In other areas it was more difficult. I had—other than the Norwegians—terrible trouble getting the donors to agree to adopt what I thought was an innovative gas agenda because they said, "Look, this is big stuff! This is what the private sector does." But, I always used to argue, "Look, gas is the energy and the feed stock of choice during the transition towards non fossil fuels. It has 30, 40 percent less CO2 than coal; it is great for a positive environmental impact, but you have to move it.

Q: So you stepped down as its chair just last April?

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STERN: Yes. What happened was, when I was given the Energy Department in the '93 reorganization, we reintegrated ESMAP and the Energy Department. They also added the Telecom and Mining groups at the same time. When I became VP of HR and Jean Francois [Rischard] was Vice President of Private Sector Development, he chaired ESMAP. Then, when he went to Paris, I assumed it for a year and a half or so to keep the continuity.

Q: Right. Including through pipelines.

STERN: Absolutely, and you can only move gas across national borders if you have the proper policy and regulatory regimes in place. And who better placed than the Bank to do the policy and regulatory work? We could move some of the environment and rural work to the bilaterally funded projects. So I would argue that providing our own agenda is consistent, it contributes to our own sort of thinking on development. These things can be very helpful.

I started off by thinking that the CG was the bind because we had to go and convince a lot of donors that we're actually good chaps who could be trusted to spend their money. And we wanted the money and we just went after it. I'm now convinced that having those bilateral strongly held views on environment and rural energy and energy for the poor and forcing us--because they had the money--to think about those things was extremely important. I think we all were too arrogant to figure that out ourselves. So, again, I used to say that publicly to them, and it wasn't just to make them feel good, although it helped without using the CG as a substantive mechanism for feedback to talk about priorities.

And, by the way, it went the other way, too. I mean, I had no problem in telling them, "You're being run by your own vested interests." And it got to the point where we were all friendly enough to do that. And sometimes you make some progress, and sometimes you don't. But it worked.

[End session 1]
Q: We are here again today, January 19th, 2001, at the World Bank Headquarters in Washington, DC, to continue our oral history interview with Richard Stern, who has just retired recently as Vice President, Human Resources. We left off yesterday as you were talking about the role or function of the Energy Sector Management Assistance Programme (ESMAP) within the Energy Department. And you wanted to continue on and discuss the integration of ESMAP with IFC [International Finance Corporation], as I recall.

STERN: Yes, that’s right. Maybe I should just give it a little bit of background as to when ESMAP and the Energy Department reintegrated in 1993. It coincided with a major change in the Bank’s infrastructure agenda. Competition, deregulation, and privatization became in the late ‘80s and early ‘90s the core infrastructure strategy of the Bank. Telecom, power, oil and gas, and water all moved at slightly different rates in making that transition, but the philosophy and approach were clear. The Bank thus moved from an approach characterized by supporting public sector investments still associated with institutional strengthening to a private competitive paradigm. This change meant that the Bank and IFC had to come closer together.

The IFC was also being affected by the increasing private sector involvement in infrastructure. They set up their own infrastructure department sometime in the late 90’s. IFC saw a very rapid growth in its infrastructure investment during the early 1990’s. In fact it actually became their largest sector in terms of the value of the operations.

With that in mind, Sam [Everett J.] Santos, who was head of the Infrastructure Department in IFC, and I, being his main counterpart over on the Bank side (not completely, because transport and water were in a separate department), started discussions on how we might bring our activities more closely together: one, because it was just more efficient to do that, and two, because the Bank and IFC were confusing our client. For example, separate missions from the Bank, the IFC, and sometimes MIGA [Multinational investment Guarantee Agency] would visit a client often giving different messages. This was despite the natural synergies, namely, the Bank concentrating on its core business public policy and the IFC concentrating on its project financing.

Sam Santos and I, as an experiment, proposed that we integrate the work of the two Telecom divisions and create one unit which would work for both institutions while booking the transactions pertaining to each institution separately. We planned to work out some sort of budget arrangement where each institution would pay for services relating to its own transactions. The idea was to start with telecommunications and then move to power. We felt the logic for our proposal compelling. If we, for example, had a history all over again, the IFC and the Bank and MIGA would never have been set up as separate institutions. They reflected the prevailing development paradigms of 1944, 1956 (when the IFC was set up), and the ‘80s (when MIGA was established). When EBRD [European Bank for Reconstruction and Development] was set up in the early ‘90s, they were given the capability to offer lending instruments, from sovereign lending right through to equity participation. The fact that our three institutions are separate is really an accident of history. Sam and I believed that we were being pragmatic in our
approach and responsive to the needs of our clients. So why not do it in a pragmatic way? Since Jim [James D.] Wolfensohn is president of both institutions we thought “virtual” integration would be very easy.

We ran into a brick wall. While they were sympathetic, senior Bank management was totally preoccupied by the on-going reorganizations that were taking place at that time. The pace of decentralization was picking up and management were giving a lot of attention to resolving the prevailing confusion between the networks and the regions. I think Gautam Kaji and Caio Koch-Weser had too much on their plate. That’s my view, of course, but I think it is correct.

On the IFC side, we hit a brick wall at the vice presidential level. We were actually quite surprised, because we had received some sympathetic encouragement from Jannik Lindbaek, who was the EVP [executive vice president] of IFC. The IFC vice presidents, however, argued that commingling the transaction culture of the IFC with the Bank’s policy approach would somehow slow down business. In retrospect, this view was narrow and laughable. Many of the infrastructure transactions that were made during that time, particularly in the power sector, ultimately got into trouble. They failed largely because the enabling environment, both at the macro and the sector level in many cases; e.g., Indonesia, had not been fully thought through. IFC rapidly expanded their private infrastructure portfolio and often ignored potential problems in the regulatory and competitive environment.

IFC also worried at the prospect of the big elephant rolling over on the mouse. The IFC had, particularly under William Ryrie, who preceded Lindbaek, made a big deal about being independent from the Bank. They were building their new building at the time, and the slogan of IFC “under its own roof,” was a popular refrain, a sort of a metaphor of the separation mentality. It was quite bizarre because it was totally out of sync with evolving development theory and practice.

So the “integration” idea was rejected. After long, long discussions, they finally agreed on a weak compromise that we would co-locate the two units so they would sit together, and osmosis would be nurtured. Jean Francois Richard, who was vice president of FPSI [Finance, Private Sector and Infrastructure Network] at the time, and I were obviously very disappointed, but we said, “Look, if this is all we can do, let’s do it.” And so, since we had some space in our building, the IFC Telecommunications Division came over to a building in my department. But just to show you how minor the IFC commitment was, the moment that the new IFC building was finished the IFC group just up and left overnight without any discussion whatsoever. That was the first saga of our attempt to integrate.

Our second attempt was just as frustrating. About a year later, after Jim Wolfensohn became president in June ’95, when he was in Wyoming for that summer he got a visit from some of his friends in the power sector. I think it was Pacific Gas & Electric, but I'm not sure about that. And they had talked to him about how the Bank group might better help them in their investments and the private sector more generally overseas. So Jim basically asked us to prepare a briefing. If I recall correctly, he sent the note to V.J. Chaudhury, who was Power Division Chief in IFC at the time, and myself as director of the Energy Department asking us to give him our thoughts.

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So, again, I got together with Sam Santos and V.J. and we sent Jim a joint note. The note told him what we were currently doing in the power sector, in both the Bank and IFC, and saying how, at least in our view, we needed to work more closely together if we were to be a more effective catalyst for private sector investment. We met Jim when he came back from his vacation, and by that time Richard Frank, the MD [Managing Director] for private sector development, also became very involved and interested, and since he came from IFC to the Bank, we figured we’d have a champion there.

Anyway, the upshot was that we put together a task force which I and V.J. led jointly. We explored the idea of integrating the work of the power groups in the Bank and IFC. I remember telling Jim before it all started that I was delighted to be doing that because I thought it was so important, but I didn’t want to get into the same trap that we’d gotten into with Telecom. Jim, who was new to the Bank and said, "Don’t worry," he was committed, and we were absolutely going to do this. So, we put together a task force consisting of various interest groups in IFC, including its legal department and representative of the Bank’s regional energy divisions. One of the advantages in Telecom was that there were only two central units, one in each institution. On the energy side, we had not only a central department, headed by me, but six regional divisions, so it was bureaucratically much more complicated.

Anyway, the bottom line was, after a couple of months of meetings, at the middle management level we succeeded in putting together a consensus to bring the two functions together. We had some pretty specific organizational recommendations, and we thought we had also resolved some of the legal issues associated with “breaking the corporate veil”. Anyway, to cut a long story short, we ended up in exactly the same stalemate as we had previously, except this time not only did we face the opposition of IFC’s senior management but also that of the regional vice presidents, who were less than enthusiastic about giving up some of their power and responsibility. And that’s about where it ended—with deep frustration which continued until Peter Woike was appointed EVP of IFC. By that time, I had become VP for HR.

Q: That was in ’98.

STERN: It was early 1998 or late 1997. I negotiated his contract. When Jean Francois went to Paris, we had a vacancy for the FPSI VP. I argued strongly—since this time I was closer to the throne—that we should use the opportunity to have another go at bringing IFC and the Bank closer together. And Jim was very receptive. And, you know, Jim always claims that he had every idea, but I think it was actually mine. I was the one who recommended we appoint Peter Woicke, who was EVP of IFC, also MD for the Bank’s Private Sector activities. And that was finally agreed.

Now, once that was done, then it became much easier to make progress. We now have several joint Bank/IFC units, all having teething problems but finding progress has been made. My own view is that too many of the current managers of the joint units were reflecting their past IFC background giving too much weight to transactions over policy and institutional matters. I think it displays a total lack of understanding of the development mission of the Bank Group. But that’s the way it is. So substance integration is going slowly, but at least the formal process has been finally initiated. It’s a good example of the challenge of institutional change and how
difficult it is to do it, but it's also something that you've just got to keep on fighting for, because otherwise it will never happen.

The other point I should like to highlight about my time in the Energy Department was the increasing attention on the environment. We became under increasing pressure with respect to energy to have a more active environment involvement. The NGOs [non-governmental organizations] were deeply suspicious of our intentions and whether or not we were serious with respect to the environment. Most of the pressure came from the NGO environment lobbies in the U.S. and Northern Europe. These groups were less interested in development issues and an increasing degree of frustration by the Southern NGOs was apparent. It was a very Northern agenda. Now, in one sense, it’s good, because it’s reflecting the experiences of the developed world. But there is also a degree of new imperialism “in terms of imposing first-world values on the third world.” The NGOs in the developed world are politically sophisticated. Professionally sometimes they are not. However, the Bank has often been politically naïve in dealing with them.

We took on a number of environmental initiatives. For example, we established a working group of NGOs--between the Bank and NGOs--which I chaired, in North America and Europe, on the environment. And we set that up sometime in the mid-'90s. We initiated a number of environmental projects in Central Europe, Russia, China and India. The enormity of environmental problems in these countries also demanded increased attention on our part. We also initiated a strategy paper on energy and environment (for the first time in the Bank’s history), which was finalized after I left the department. I pushed very hard for win-win solutions, particularly in promoting gas as a fuel of transition towards a non-carbon era. Does gas contribute to global warming? Well, of course it does, it’s a fossil fuel. But it only has 60 percent of the CO₂ emissions of coal. It’s a much cleaner fuel. You can feed it through the combined cycle for power generation, which again is getting more and more efficient every day. And you can use it for combined heat and power.

Another “win-win” was raising the efficiency of coal boilers. For example, if you can raise the average efficiency of small boilers in China to that which prevails in the West, which is not particularly challenging, you save 100,000,000 tons of coal a year just in China, just by doing that. So I was pushing very hard for such solutions. The environmental lobby--and our own Environment Department, to some extent--felt that we needed to go further than that. My own view was that their view was premature and overly dogmatic. The CO₂ agenda was, and is, in my view, primarily an issue for the developed world at this time.

Q: In your capacity as Director of Industry and Energy, what would you say were your accomplishments in designing the Bank’s energy policies and helping develop the Bank’s policies on energy and the environment?

STERN: I think I’ve covered a fair bit of that already. The new approaches were articulated in two policy papers on energy and on power competition which I mentioned earlier. These were produced just before I became Energy Director. Tony Churchill led that work. So the main challenge during my time was to implement them. One of the biggest challenges we faced was
convincing investors that sound regulatory environments were critical to the success of the new competitive and private approach we were now supporting. In this connection we instituted meetings with independent power producers where we discussed many of these issues. However, in their rush to invest in new markets, many of these investors did not listen to us.

In an interesting postscript, Jim made a speech to the Energy Congress in Houston. I guess that would have been in 1998, probably, by which time of course we were in the throes of the East Asia crisis and the investment euphoria had collapsed. In a very nice but very forceful way, he said, “Look, we told you that the regulatory and policy environment were important. You didn't respond to that. In fact, you were not very supportive of us. We bear no grudge, and we will continue to work on these issues. But we'd appreciate it if you would actually help rather than derail us.”

In addition to the work on competition and regulatory policy, my period as energy director saw an increasing preoccupation with the environment and energy efficiency issue, especially in the transition economies. One of my disappointments was that our efforts to get the Bank more heavily involved in gas was not as successful as I had hoped. The critical issue is transporting it. As I mentioned yesterday, gas clearly is a fuel of transition. And it seemed to me the Bank has a very important role to play, particularly in mitigating the risks of cross pipelines. There was no question that the Bank should be a major financier; the private sector will do that. But they can't do it without a proper regulatory environment policy and, in some cases, without Bank guarantees. It was always one of my frustrations that we couldn't move quicker. I think our lack of success had something to do with a naive view, in my opinion, of certain country directors on poverty alleviation: basically, that we don't have to touch this because the private sector will take care of it. The difficulty in the Bank, which it is still struggling with, is that while a country approach to determine assistance strategy is absolutely vital, the Bank's global agenda cannot just be the aggregate of country programs.

Let me just mention the Arun Hydro Project very quickly. The proposed project was a major controversy during my time as energy director and a major milestone in the Bank's history of financing large dams. Actually Arun is, by hydro standards, a very small project. For Nepal, however, it is a relatively very large project. For example, it would have consumed a third of the country's overall budget during construction. The project had lots of technical risks and lots of environmental risks. By the way, on the environment side, I thought we managed the risks extremely well. While the project did become a high profile target of the global environment lobby, I think it was unfairly targeted on those grounds.

However, I and my colleagues in the Energy Department firmly believed that this project was premature for Nepal. It was far too big; it required a level of management for which the local power company were totally incapable. NEPA, the power company, was one of our worst performing power entities. So we argued very strongly against it. This was a huge fight between us and the regional management. This was the only investment project that ever went to the Bank-wide Operations Committee, chaired at that time by Ernie Stern. What happened was Joe [D. Joseph] Wood, the RVP [Regional Vice President], approved the project at the regional Loan Committee level and we then appealed to Ernie Stern. Jean Francois and I pushed this very hard. Joe was a gentleman, so he wasn't mad at us, but Ernie was clearly irritated with Rischard, my
VP. And we basically said, “Look, you are paying us to be the professional conscience of the Bank, and I don’t care what you say, we damn well are going to do it!”

The upshot was that we lost that round. We presented what we thought was a very strong case and we lost. But, again, it does raise an interesting question that real decisions are not made by the formal process. Rather, at some point during the dialogue in the early days of project development between the Bank and the borrower, a commitment—moral/personal/institutional—is made. When that happened on this project I don’t know, but it was clear that we, in retrospect, were engaging in a charade in these meetings.

Just to finish the story on Arun. Jim Wolfensohn asked to be briefed on all the vulnerabilities he faced. Four or five risky projects we identified and Arun was one of them. We had another review--actually it was six or nine weeks after he joined. He asked Maurice Strong, who was his advisor, to handle it--Maurice was the ex-CEO of Ontario Hydro and a respected global authority on environment issues. And all Maurice did was--much to our delight--dig up all our old memos. He cut and pasted them--actually he made them less coherent--but that was alright. And we ended up with a committee chaired by Jim, where he pulled the plug on the project.

Some outside academic should actually write that up one of these days. It tells you a lot about the way the Bank actually worked and still works, tells you a lot about some of the outside forces that played at the time. The unfortunate result is that it's become so costly to do these projects in the future. We probably won't support as many as we should. I'm sure we got it right in saying we shouldn't do the Arun project, but there are a lot of larger projects, in the power sector and other sectors, that we should be doing and we probably won't do now.

Q: The scrutiny is too intense on these projects.

STERN: Well, the scrutiny is intense, but the scrutiny implies objectivity and fairness and that’s not what often happens. While I firmly believe Jim made the right decision in Arun, we also have to recognize that outside pressures on the Bank and the new age of “transparency” has made it very difficult for the Bank to finance large controversial projects even when they pass rigorous economic, environmental, and social barriers.

Q: How did the challenges in your years in operations influence your thinking about personnel and human resource issues?

STERN: My operational experience was fundamental to determining my views on HR. I got the job in HR because the Bank management was in dire straits under the Strategic Compact. We had promised the Board that we would completely revamp the Bank's compensation and personnel policies; however, after nearly a year into the Strategic Compact, the HR function, basically, other than talking about it, had managed to do nothing. So to say that there was panic in the President's office was an understatement. I got a cold call from Sven Sandstrom. Jim Wolfenshon asked me to take the job. I think they tipped me because I had a reputation as being fairly pragmatic, and a guy who gets on with people. I was deeply frustrated. I didn't want the
My previous experience deeply colored the way I approached the job. I had a deep skepticism of HR professionals. I firmly believed and still do that HR can support, but that the line operational managers must take the lead on HR issues. The problem often is that many are reluctant to do so.

One case where this had successfully happened was in the energy group, and the water and transport group, which were probably the pioneers on HR issues. And I think a lot of that had to do with--without touting my own trumpet--the personality of John Flora in the Transport Board and myself in the Energy Board. Many of the sector boards felt they should do very little with human resources and personnel. I argued very strongly that you could not embark on new operational strategies and approaches unless you fixed the fundamental capacity of the Bank, which is its human resources. Systemic and coherent training and recruitment was critical. If you didn’t make sure that recruitment was consistent with new strategic objectives, you would fail. Given that attrition rates historically were quite low (two, three, four percent a year), every recruitment decision was precious in terms of implementing any new approach.

So I argued very strongly that the Board should take a very strong or proactive role in HR. And we started to pioneer that. We did one of the first detailed surveys that were ever done in the Bank of our actual HR resources in the energy sector. We had about 200 to 250 energy staff. We catalogued the skills of each of them, so for the first time we were able to say, “Look, there are skill gaps to implement our strategy.” So I had actually given a lot of thought to several HR issues before I came to HR.

To complete the sector board story now, when I joined HR, I argued very strongly that the sector board’s role in recruitment should be formalized and institutionalized. This was a big fight between me and the RVPs when I became vice president. We had many meetings with sector boards where I told them this was their role. I deliberately brought along Caio, Sven and Gautam [Kaji] (the Managing Directors at that time) to some of those meetings, because I wanted to make sure that there was institutional backing. The tension between the sector boards and the regional role in recruitment decisions still continues, but for the first time in the history of the Bank, these groups were now engaged in systematic quality management of the recruitment policy.

Q: As VP for HR, to continue on with what you were talking about in the context of decision-making, could you describe the relationship among HR, Management, and the Board? And our next question is if you would care to discuss volunteering as chair of the Appeals Committee and how that came about?

STERN: Well, I didn’t volunteer. I also did it for about a year or so before I joined HR. I had to resign as chair of the Appeals Committee when I joined HR.

Q: How would you characterize this experience in terms of preparing you to tackle the challenges in HR?
STERN: I got a call from Shahid Husain, then the HR VP, asking would I do it. I said, "Fine." I mean, I'd be happy to do it. It did help, because when you're on the Appeals Committee, you see the consequence of lots of mistakes by management. You also get a very good feel of the attitude of staff. I mean, it was an eye-opener for me. I must have been protected in my prior Bank life, because I don't think that I faced many serious personnel issues. The Appeals Committee sees the real problem cases, so you see the consequence of lots of pretty awful decisions and actions. On the Management side, the mistakes are invariably the inability to confront the obvious early performance issues. The bulk of appeals are usually about termination decisions or redundancy decisions. Often these involved individuals who have problematic performance cases, usually from the time they were hired; however, several generations of their managers have not dealt with them. For example, renewing fixed term contracts rather than making a termination decisions. Now, that raises all sorts of ethical and professional managerial issues. It also raises a bunch of legal issues because, at some point, you are a long-term employee irrespective of your contractual relationship with the Bank. You also see some outrageous cases of staff trying to exploit the Bank.

But an interesting aspect of the Appeals Committee was that you had people appointed by the Management, the Staff Association and both jointly. And it was very rare to see a case where there was any disagreement between the three on the panel. Unanimity invariably prevailed.

Q: With the arrival of James Wolfensohn in 1995, staff had still not fully recovered from the 1987 reorganization and its aftermath in terms of the fine tuning that continued to go on. Added to that were the dramatic changes introduced with Wolfensohns arrival resulting in the Board approving the Strategic Compact exercise in March '97. Now, in light of what amounted to very turbulent times for the Bank, what prompted you to accept the appointment initially as Deputy VP Human Resources in 1997 and then as Vice President in early 1998?

STERN: Well, I basically had, as I mentioned before, in the end decided that really I had no choice. I was called in by Sven, and I got a call from Jim about a couple of hours later. They were clearly in trouble in their efforts to implement the HR aspects of the Strategic Compact. They were having a terrible time going from slogans to actually figuring out what precisely to do. I was under tremendous pressure from the top to accept. So I agreed to be a good institutional soldier. I did extract a promise that in three years I'd be out of there. Well, I guess it was three and a half years, and I was out of there!

Q: Now, what did you hope to accomplish, especially at a time when staff morale must have been low and the perception of Personnel or HR was one of mistrust?

STERN: It was very low. Well, I guess it was two or three things. One, just to develop as fast as possible a coherent set of employment and compensation policies in place, that was clearly the first marching order. Two, as I mentioned earlier, I did feel very strongly about recruitment, and the need to develop a more institutionally focused system. All sector boards now do approve the short list for every single external recruitment. Some take it very seriously. Others just rubber-stamp what the recruiting manager wants to do. However, the practice is changing. Three, as I also mentioned earlier, I felt very strongly that HR should be a facilitator and a source of advice.

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rather than a decision maker. I wanted to get the line to be the real HR managers. Only in that way would morale ultimately improve.

Q: Now this would be in contrast to the way the Bank had traditionally viewed this?

STERN: Probably, although as always there is a lot of schizophrenia. I mean, different people have held different views, and the same people have had different views over time. For example, I told every sector board chair, “You are the HR manager for the Bank in your sector.” And a lot of them were surprised to hear that. And some members of HR felt that I was undermining their function by taking such a position. Over time, I think I won over most of the people in HR, but there were always some percentage that felt I was an outsider who was not an HR professional, who did not understand its true nature. Now, I had enough self-confidence to go my own way on that. If you look at my attitude surveys in HR, they are about 70 percent who are very supportive and 30 percent who just couldn’t stand me because I challenged what they thought their fundamental views on the role of HR were.

HR is a funny function. Again I’m making generalizations, and it’s by no means universally, but many HR professionals tend to be very unsure and uncertain of their role. I went to quite a few HR conferences outside the Bank. It is not a very self-confident function in many organizations. Often they retreat into control functions to justify their own existence. And I would argue with them, “Look, you have so much to do on the policy and strategy side—recruitment strategy, compensation, policy, developing leadership and management talent, succession programs, training—why do you need to spend much time on the controls and rules to tell line managers what to do? Shouldn’t you instead try to help them participate in taking on an institutional perspective on these HR functions?”

Q: In talking perhaps about other people that might have not been delighted with what you were doing, and, in view of the fact that the Staff Association represents staff concerns, could you talk a little bit about the nature of the interaction with HR?

STERN: By the way, I would not accept the assertion that the Staff Association looks after staff concerns. Often I believe that they do not well represent staff interests, but that’s another matter. I thought for the first year or two that we got on quite well with the Staff Association, particularly since we were going through a very difficult time on the reform side where, for example, it was clear that some salary relativity among various staff categories was required. We had a situation where, for a variety of historical reasons, support staff have been overpaid relative to the professional staff. You only have to look at what our secretarial staff get compared to the rest of the Washington area, particularly with respect to benefits. And we all knew that we were going to have to take that on with the Staff Association.

Typically Staff Association’s membership and interests are biased towards the support and junior staff. And the executive committee of the Staff Association is also more junior than the average for the Bank. We were fortunate that we were in the initial period of the reforms dealing with a constructive SA leadership. Jamil Sopher, the Chair of the Staff Association at that time, recognized the issues we had to face and tired to deal with them in a reasonable and non-
confrontational way. But he, of course, in the process alienated himself from some of the other leaders of the Staff Association.

The other thing that you have to recognize in terms of the Staff Association is that the issue of the NRS [non-regular staff] and the so-called long-term consultants colored everything. I think I'm right in saying that the Executive Committee now has a majority of ex-NRS compared to the 30 percent that were in the Bank. In the early '90s (July '93), the Bank went to dollar budgeting. When I first became a division chief, you had a higher level quota of staff, you had a support quota of staff, and the only fungible money you had was your traveling and consulting budget. When the Bank moved to dollar budgeting it did not change the personnel policies at the same time. In hindsight, it was a fundamental error of the gravest proportions.

So, over time, middle management, being fairly entrepreneurial (which is good) realized that they could purchase long-term consultants much cheaper than regular staff. By the eve of the reforms, we had 3,000 long-term consultants onboard, compared to a total population of about 12,000 (Bank and IFC). Some of these long-term consultants were excellent; others were not. In contrast to regular staff, there was no institutional system for recruiting them. Local managers made the decisions. There was no monitoring of qualifications, no monitoring of consistency. After a year or so as LTCs, the good ones would just say, "Look, if you want me to stay, you have to give me a regular job, or else I'm going elsewhere; e.g., if you don't want me in East Asia, there's a manager in Africa who will take me!" So, as a matter of fact, the excellent LTCs didn't stay there very long. Again, in the time-honored tradition of Bank managers not able to take hard decisions, they would just keep on extending the contracts of these LTCs who could not get regular appointments.

By the way, when I took over ESMAP (several years earlier), I let them go or we converted them. As a group, they rightly felt vulnerable. They always had to fight for everything they got; people who on average were not as good professionally as the rest of the regular Bank people who somehow felt that they had a right to get everything. I'm not blaming anybody. The policy was fundamentally flawed in the first place.

By the way, it would be illegal under US and European labor law to have such a staff category; you're either a long-term employee or you're not. And, if you are a long-term employee, which they were, you're given the full range of benefits. It's just plain illegal not to! And so, if they could have taken us to court (they couldn't because national courts do not have jurisdiction over the Bank) they would have won, and we would have had to convert the lot!

Q: Now, how has the non-regular staff (NRS) exercise affected the Bank's reliance on consultants in general?

STERN: Well, to rephrase that a bit, what we had to do was work out a way to eliminate the category while protecting the long term interests of the institution, so what we did was basically the following. We said, "Okay, we would convert NRS to regular staff but only if you are filtered through an institutional screen. We're not going to convert you automatically, but if you make it through that screen then we will, subject to overall budget limitations, absorb you."

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Part of the “deal” on abolishing the NRS was, in the eyes of management and Jamil Sopher, an agreement that there be no past pension credits for NRS staff. Now, the current staff association leadership feels that it wasn't part of the deal, and that in turn explains some of the current problems and issues. When you combine that to the point you're making about the Wolfensohn reforms coming in after a series of fine-tunings and redundancies during the [Lewis T.] Preston era after the 1987 reorganization and the fact that one-third of the staff feel that they have had to fight for every concession, a degree of disillusionment is inevitable. When we finally went to the Board with the compensation reforms, we were quite proud of ourselves because we got unanimous approval in the Board, which had never been done before on a compensation issue. And we had the Staff Association stand up there and say, "We don't like every little bit of it, but as a package, we're prepared to support it.” The SA accepted that political support for the then Kafka compensation approach.

Q: In talking about the Board, specifically in the context of Board, Management and HR relations, had the Board pushed you in any way on this? In other words, did you feel pressured by the Board?

STERN: On compensation issues?

Q: Yes.

STERN: You know the Board was becoming increasingly uncomfortable with the so-called Kafka compensation system for a variety of reasons: one, it linked us automatically to the Fund, and they felt there were some differences; two, some EDs felt that many categories of staff were over paid; others felt that it was just a few. Many public institutions had over the previous ten years or so, the Americans and the Canadians in particular, gone through quite a bit of budget retrenchment. For example, the Canadians were balking at fairly automatic salary increases to Bank staff while their civil servants had gotten none for about seven or eight years. Conversely, some EDs felt we were having problems attracting certain candidates, particularly from their countries, and therefore we needed to adjust the compensation system accordingly.

So while there was not unanimity--far from unanimity--on the particular points, there was general discomfort with the overall system. And we were finding it very difficult. Each year it was becoming increasingly difficult to justify the increase, even though we felt we were being thoroughly professional in applying the various Kafka formulae. We had several years where if one ED had switched we wouldn’t have the compensation increase. So there was unanimity that it had to be changed.

Q: What about Board-Management relations in the context of decision making in HR? A lot of people are confused about who decides what.

STERN: Well, I think the reality is quite clear. Other than the President and the Director General of Operations Evaluation, the Board does not make HR decisions. That doesn’t mean that we don’t have to respond to Board pressures; e.g., on diversity. But even here the Board is torn. When you have a discussion on diversity in the Board, most Board members talk about it entirely in terms of their own nationality, so diversity for the Japanese ED or for the Saudi ED
just means how many Saudis or Japanese you've got and why haven't you got more. I was under tremendous pressure in the last three or four years from some of the under-represented nationalities such as the Spaniards, Italians, and the Japanese to improve their representation. I had to go on quite a few high-level recruitment missions to try to satisfy them. Now, at the same time, I have to persuade the Bank managers to take under-represented interests. We made some special efforts, we did make some improvement, but progress will inevitably be slow as we have rightly resisted any compromise on quality.

Q: Is there a country quota in the YP program?

STERN: No, there is no quota. In contrast to mid-level recruitment, there's an abundant supply of well qualified candidates from all regions. You balance it geographically. Initially, I would tell the Selection Committee each year, “Look, we're short of Italians, Saudis, and Japanese.” They would come back and say, “Look, we found five or six Japanese who are great and can make it, compared to all the others.” Sometimes in a particular year we had trouble finding suitably qualified YPs from some under-represented nationality but over time, as far as YPs are concerned, it balances out. If the rest of the Bank had the same nationality distribution as the YPs, we would have no problem.

By the way, not only is increased nationality diversity a political necessity; staff cultural diversity is also critical to the achievement of Bank assistance strategies. The CDF cannot be achieved with a culturally one dimensional staff.

We've always resisted a quota. We will continue to do so. But, you know, the HR VP job has a very difficult role to play. And, again, if this is the time to be perfectly honest, there is a lot of game-playing that goes on, too. You try and do your best, and then you try and manage the political consequence when progress on nationality diversity is slower than promised.

Q: Are there any other issues you wish to talk about in reforming the compensation system during your tenure as vice president? And, historically, compensation proposals were formulated in collaboration with the IMF and discussions with the Staff Association; has this changed?

STERN: Well, in terms of the discussions across the Bank with the Staff Association, to be perfectly honest, we were quite proud of the way we did it. We discussed it with focus groups (SA and non-SA). To begin with we didn't discuss either the specifics of the employment or the compensation reforms. We only discussed proposed prescriptions fairly late in the process. First of all, we just described what the current compensation and employment policies were. We then focused on what the issues that we had to address were. So, for example, on the compensation policies we had a pension system, which was not longevity neutral. It was a traditionally defined benefit policy which had enormous incentives for staff to stay in Bank employment until they reached some key trigger points. For instance, the penalty that you took if you left the Bank before you reached the rule of ’85 (age + years of service) was huge. This biased the mix between career staff and shorter term staff that are needed for state-of-the-art skills.

We also had employment policies and practices, which discouraged staff to go to the field, a key problem given the desire to decentralize the Bank. These are just two examples. We spent a lot

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of time just putting those issues on the table and getting agreement around them. We did that with focus groups of all staff levels, the Staff Association; we had task groups working on issues, and had whole series of Board seminars where we discussed the matter. We went out of our way to get agreement on the issues. We then floated prescriptions. So we went back to them and said, “You agreed a few weeks ago that these were the issues. Now, here are ways in which you could conceivably tackle them. And here are our preliminary thoughts on the costs and benefits of the possible prescriptions.” And then we had that discussion. Then we finally came up with proposals and again floated these widely before we finalized them.

Q: What about compensation proposals in collaboration with the IMF?

STERN: One of the issues was whether we should continue to link with the IMF; i.e., the so-called “parallelism.” The arguments for would have been that we live in Washington and we do broadly similar work. The arguments against were that we are a much more complex organization than the Fund, we have all sorts of categories of staff and professionals that they don’t have. Their staff come from very different labor markets, which is broadly homogeneous: central bankers. We recruit people from a large number of very different labor markets; e.g., finance and NGOs. These markets have very different compensation.

One of the questions was should we have a system of functional pay within the Bank, where you have different professional streams having very different salaries? There are quite a few organizations that do that. Such an approach would bring most salaries far more in line with the market. We then said, “But there are some problems. We want staff to be able to move from one function to the other. We don’t want to undermine the morale of the staff in a unified Bank.” So, we put it all on the table and said, “Look, tell us what you think.” In other words, we wanted to give all staff, Management and Board a chance not just to sit there and criticize, but to engage in the issues and build a consensus so that when we did come up with a proposal, it would easily go through. And I think we actually achieved this.

Q: Well, still on compensation, how has that affected recruitment? And is the Bank still competitive in attracting the right caliber staff?

STERN: There is no evidence that we’re having problems in recruiting because of compensation. We monitor that very closely. Of course, there remain a couple of categories where we’ve always had trouble. Treasury always has trouble recruiting and keeping traders, but, a good trader on Wall Street will get close to $1,000,000 a year compared to the Bank paying them $100,000; you can’t reform the compensation system to handle that. So what happens is they get good training here, good experience, and far more responsibility than they get on the Wall Street. Then, after a year or two, they go to Wall Street. But you should also put it into perspective. We’re talking about ten or fifteen people out of the 600 or 700 who are being recruited a year.

We partially mitigated the problems by introducing recruitment bonuses and salary premiums in the compensation reform. They are not incredibly large, but can be used on a selective basis if there is a retention or recruitment problem. And we have used them, although not very much, in
the first year. You can get up to three months pay. Each manager has to justify that. And we've had a few of them, about a dozen or so. And we control that quite tightly.

I would argue that overall the Bank's compensation system is now more competitive than it was. But because of grandfathering some of the relative pay, line adjustments will only change slowly over time. The pay line will gradually move from a straight line to one that's a steeper curve. And so you will see the salaries of the highest grade professionals and managers go up relatively faster than that of the support staff. That's not widely understood. And again, if you want to be perfectly honest, that was part of the political strategy of selling the new approach.

Q: Now, in your opinion, what will be the effect on staff turnover, since historically the Bank has had a low turnover rate which, as you have said earlier, really presented a constraint in recruiting new and good people?

STERN: I don’t know what’s going to happen. But what has happened in the last three years is that the turnover has been phenomenal, possibly to the point where it was too fast.

Q: But only for that period?

STERN: Yes, but only in that period . . .

Q: Will it continue?

STERN: In that period, 3,000 staff had left and 3,000 staff had joined. Most people don’t recognize what a huge turnover rate we had. We turned over a third of the staff in the last three years. Now it’s for a variety of reasons. One was the NRS transition. So, of the 3,000 NRS staff, 1,500 came in and 1,500 left—didn’t make it through the screening or decided that they were not even going to try. So that’s a one-time thing. Seven hundred people were also separated through redundancies or mutually agreed packages. And there’ll be another hundred or so this year. Then we recruited, again on a one-time basis, between 700-800 and I,000 new people in the field consistent with the decentralization strategy. Others also left due to the pension reform which took away some of the penalties to early retirement. So it’s hard to predict future natural attrition based on recent experience.

Q: And the effect on consultants and the use of consultants?

STERN: Well, the consultants, that’s another story.

But just to finish on attrition, I think that if you asked us what would have been our intention, it would have been that the traditional rate of three or four percent would have increased to about seven or eight percent. During the earlier discussions on the reforms, we did discuss whether there we should have any long-term staff at all. The argument was that if the Bank was going to be a knowledge bank and remain on the cusp of knowledge and the agenda is going to keep on changing, then we should be like OECD [Organization for Economic Co-operation and Development] and only have five-year appointments. That way we could continuously recruit the state of the art. And there were not a lot of proponents of that view. The other side was, the Bank
is a long-term development institution. Development is an integrated topic, you change by doing. Moreover we are engaged in long-term dialogues and relationships with countries. You can’t do that with a staff that has no continuity. So the issue became what was the right balance between long-term and short-term staff. Some people said it should be 50-50, some thought it should be 70-30 longer term and shorter term staff. We therefore developed two staff categories--open-ended and fixed-term--and decided to let the operational managers determine the balance in practice. How this works in practice remains to be seen.

On the consultants, there has always been a big debate about what that ratio should be; i.e., the balance between contract staff and consultants. It relates to the need to quickly access certain skills and to the flexibility of managing a work program which can fluctuate quite dramatically over the years. Just after I joined, while I was still deputy VP, we put together a task force which was led by Shengman Zhang. We deliberately went out and got some of the strongest managers in the Bank to be on it, including the ones who understood the budget. So we got people like Praful Patel and Anil Sood at that time to sit down and discuss precisely that question. And, it related to two things: this group recommended that the ratio of long-term staff and consultants should be in the 65 percent to 70 percent range. We also recommended that this ratio be mandated.

We ran into a brick wall, as some of these people in the working group who had supported this conclusion quite strongly got the once over when they went back to their VPU’s [vice-presidential units]. They came back like dogs with their tails between their legs, basically saying, “Well, maybe we were a bit too strident. We were told that we were undermining managerial responsibility, that managers should be allowed to determine what their ratio should be, that I was being bureaucratic and was an ‘out-of-date’ central planner.” So we made a recommendation but it was not mandated.

If we had done what we said we should do three years ago, we wouldn’t be in this current staffing crisis, because what happened was that the regional managements misjudged the soft landing on the budget. The SAP [computer software program] sent some confusing signals. So all the regions ended up with staffing ratios close to 100 percent of budget, and that’s why they’re all cutting back now. Our failure to mandate those ceilings was one of my biggest regrets, that I should have just told the MDs that they were chickening out. I should have been more forceful. Of course, behavioral changes take time. As a consequence of the current crisis, the regional management now accepts the need for mandated ratios. If you really can virtually manage the sector staff across the Bank, if you can really get regional country sector directors to promote and encourage staff trade and have enough honesty between the managers to move people around short-term, you could probably go with higher ratios. It would also be consistent with the “knowledge bank” providing “just in time” best practice to a client from regional experience; one of the key attributes of a knowledge bank is providing regional experience. However, it requires a major change in institutional behavior. Some senior managers believe that this can only be achieved through organizational solutions; i.e., creating global departments like we had in earlier periods of Bank history.

Q: In 1971?

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STERN: Yes. The reason that we got rid of them was because they weren’t country responsive, but then we didn’t have country directors in the field, and country managers control country assistance budgets. However, after many organizational changes, my own view is that it is behavior, which is the fundamental.

Q: Want to talk a little bit about what you think has been accomplished or still needs to be done in regard to gender, racial, and representational issues in recruitment? You’ve already talked a little about the representation issue.

STERN: Assuming we never go for a quota system (it would be a terrible mistake), I’m now convinced that the only way that we can tackle gender, race, and nationality issues (we’ll eventually succeed on race and gender, but never totally on nationality) is through a fully institutional approach which in turn requires the development of a much more systematic candidate governing system on the Bank’s part. We have a built-in advantage if we want to use it. Recruitment is about networking. Our professional staff understand the agenda and our skill needs. We work in 100 plus countries and have 130+ nationalities. Our staff either know all the potential candidates, or they know someone who does know. If the sector boards increasingly and enthusiastically take the lead, and we get the staff engaged and succeed in our diversity goals (by the way, we did consider giving staff a bonus of $500 or $1,000 dollars if they identified someone who is eventually recruited; I still think we should introduce such an incentive, not because it’s going to materially affect anybody’s compensation, but it would send the right signal) I’m quite confident that we can make significant progress.

I think perhaps more difficult will be breaking down the cultural barriers inside the place. These barriers do remain pretty strong. That will take time to break down. We’ve got lots of mentoring programs and lots of behavioral awareness programs. And more importantly, the Bank’s substantive agenda, the CDF is in place. If you don’t have a group of professionals who can empathize, think and look like the people that they’re working with, you’re not going to be effective. I mean, it’s as simple as that. So I think all these things are mutually reinforcing. But building the all inclusive culture will be a long-term process. Getting to a full 50-50 on the gender side, now we have 35-38 percent women, something like that. The last ten percent will be tough. But I’m actually quite confident that this target will be achieved.

Q: How have the new leadership development programs and staff training programs improved on previous efforts at career development, in terms of keeping staff skills current as well as maintaining the tradition of promoting from within?

STERN: Well, there are a lot of questions there. Let me start with professional training. I think the attempt to have the networks take charge of professional training, to identify where the gaps are in terms of the current agenda and to put on the right courses, have actually been quite successful. The annual sector weeks organized by the sectors really are state-of-the-art programs. They have resulted in a very high-level of debate and attracted some of the best outside expertise. For example, Energy Week on rural energy and energy for the poor was a state-of-the-art primer on these issues; it also sent a clear message on the future strategic direction of the Bank with regard to professional training in this thematic area.

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There's a bit of a disconnect between some of the networks and WBI [World Bank Institute] in terms of training delivery. WBI, again, at least in my view, has tried to capture too much of the of the training delivery, so there's been an element of supply driven from the WBI, but I fault the networks for that. I think the sector departments as the professional practitioners just should not let that happen. They should develop and drive the training agenda. Some of the thematic groups, which are an integral part of the knowledge bank, have played a key role in keeping the Bank at the state of the art level in their respective areas. They have proved to be an effective vehicle for collecting and disseminating “state of the art” knowledge.

What hasn't worked so well on the professional side is the day-to-day professional mentoring. When I joined the Bank, it had a much more formal hierarchical structure, and the span of control of the managers and the supervisors was also quite small. So when I came off the YP program, I was supervised by people who probably had only four, five, or six people reporting to them. You had people who were willing to guide you, coach you, smile when you made mistakes. You didn’t mind making mistakes. While staff in the new Bank have access to the expertise that they need (through the networks) it’s not obvious that they always take advantage of these resources; none work on identifying them. Most training is on the job; therefore, the availability of detailed day-to-day professional guidance is critical. So the problem is really not so much with the training delivery mechanisms and the articulation of the training needs, it's more with the structure and the way we run the Bank.

Q: So you're saying that one problem here is that there's not enough feedback?

STERN: I don’t mean formal feedback but the day-to-day professional supervision--learning from a few gray hairs and that sort of stuff. That works less smoothly in the network bank, as opposed to our earlier hierarchical organization. On the managerial side, we have in place now what everybody says is a state-of-the-art training system. The EDP (Executive Development Program) at Harvard is an excellent program; I think it would be hard to get a better program. The behavioral training for managers and particularly first-time managers has also improved. The techniques the Bank uses to collect behavioral feedback are very well known in the trade. For the first time in the history of the Bank, we have a pretty cohesive and coherent set of managerial training, particularly for those implementing the new CDF approach. We have also developed similar training programs to support teams. I'm a little bit more skeptical on this latter sort of training because it's very expensive; you wonder whether you're getting much benefit from the high-priced consultants. These training programs have been complemented by much more systematic managerial evaluation, succession planning, and management development systems.

The LAMP program (Leadership Asset Management Program) systematically obtains information from each of the VPs about who are their problem managers, what remedial help can be provided, when we need to remove them when such medicinal measures fail, and if their problem managers need remedial help or do we need just to take some action, who are the people who are ready now for director and VPs, and who are the people who will be ready a few years from now, et cetera. That has become systematized institutionally. We do that once a year. The VPs also meet as a group at least once a year where they have very honest discussions on the most appropriate next assignments for their managers and their long-term potential.

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The problem, once you've agreed on appropriate development actions for particular individuals, has been actually to make it to happen. This was one of my biggest frustrations. In contrast to the past, the VPs take a corporate rather than a "personal" or "local" view in the discussion.

Q: Following over five years of experience since the establishment of the Staff Exchange Program in 1995, what's your assessment of its achievements to date?

STERN: I think it's been a very successful program. It's given a large number of staff members here exposure to the outside while providing the security of the return. Many of them have been able to make quite important and appreciated contributions to the firms and organizations they went to. The Bank is profiting greatly from the experience the staff members accumulated when working on their exchange assignments. It's also helped tremendously in networking. For example, if you've got some staff working in another corporation, and then you go there and say, "Look, let's cooperate on something else, and let's work together," it's very powerful. It is very expensive, because in the end you're investing in only one person at a time.

Q: How many people, total, have been involved in that kind of a setup?

STERN: I can't remember the numbers, but it's not a huge one, maybe 100 seconded in and 100 seconded out. Given the expenses involved, the program should not be seen just in terms of individual self-improvement; I think there are much cheaper and more cost-effective ways to achieve the objectives. Rather it should be viewed as a partnership program. You've got to see it in terms of building long-term relationships.

Q: The next question, and you've already touched on this in a number of ways, is on decentralization but, in addition to that, outsourcing at the Bank. So, what are the challenges that a) decentralization of Bank operations; and b) outsourcing of services in the Bank, present to HR?

STERN: In terms of decentralization, we faced a number of major HR challenges. In contrast to the past, we now have a consistent set of staff grading criteria irrespective of location. We also, for the first time, have a consistent set of compensation policies between headquarters and the field. We also have a consistent set of staff development policies and programs but what we're finding now as a practical matter is that career development of the local staff is tough, not because of problem with the concept, but in delivery. Day to day professional mentoring and development in the field is hard because many of the needed resources are located in Washington.

Now, again, some sector networks are beginning to take the initiative in this area. In several regions, now, local staff are beginning to work for other local offices. This way staff get the needed exposure to a wide range of issues. So, let's say that you send out an irrigation mission to Indonesia, and then the person in the China office might join the team. For example, agriculturists in the Ethiopia office have joined missions in Zimbabwe and Zambia. HR staff can't manage the process; the sector directors and the country directors have to see such an "on the job training" as key part of their jobs.
Delivering formal training to the field is also quite difficult and expensive. We've had a few hub courses. We bring people here. But again it's not easy to give them "just in time" training. In general field staff still feel somewhat forgotten, often saying, "Look, people don't know us out here." But they shouldn't ignore the fundamental changes that have taken place. The ratios of field staff to headquarters are now significant. We have professional staff in the field. The local staff itself is very pushy and articulate. They will demand and ultimately get the training and development they need. They will also evaluate country directors/managers' performance in acquiring and securing that training. So I think the dynamics are in there, but one shouldn't underestimate that it will be a difficult and lengthy process.

Outsourcing is a totally separate issue. We're decentralizing because we want people locally who understand what is needed, who can interact with clients on a day to day basis and respond to their needs while at the same time ensuring that we have an integrated and coherent global professional approach. On outsourcing, all you're saying is, "Here is a routine task which we can accomplish more cheaply outside, and it's not part of the core business." We are making some progress on that. The Controllers group will be outsourcing part of its function to India. The ensuing job losses at HQ have to be managed sensitively. By actively pursuing outsourcing, we are doing nothing different from what other multinational corporate organizations are doing, so why not exploit these sunk costs to effectively outsource. We can procure some of these services at a quarter of the cost. And we're a development institution. For the first time we have a global office and IT infrastructure in place. We need to cushion the transition. We need to give people special compensation. With the current fragmented organization, these will be limited to outsourcing some functions. To be more explicit, many of the routine operations can be outsourced, but a lot of those operations are fragmented because of our regional structures. As a practical matter it may not be easy to bring it all together and then outsource.

Q: Actually, the next question has to do with the role of HR in staff grievances and conflict resolution?

STERN: Well, the philosophy behind the conflict resolution reforms which were enacted over the last two or three years was to actually separate the conflict resolution process from HR. The philosophy was that as an interested party, HR is very often the function that is seen as the "aggrieve" and therefore should not be part of the process. I've have no problem in the appeals committee and the mediators and the Ombudsman being totally independent from HR. In fact, they should be. But I think we may have gone too far because HR also has to be part of the solution. If you separate the conflict resolution process entirely, it is difficult for HR to play this role. We have also relied too heavily on a legal approach to solve complex problems. More work and thought is needed in this area. We need to learn from lessons of experience of the new systems and make the necessary mid-course corrections.

Q: How would you assess the various evaluation mechanisms currently in place within the HR function for measuring success in terms of the services it provides?

STERN: In terms of the benefit services that HR provides, the overall management of the insurance schemes, it's obviously got a monopoly. However, we have a very aggressive staff that
doesn't mind what they say to anybody – in the form of feedback. So as a practical matter, we have market feedback. As VP for HR, I used to get lots of highly sarcastic, well-drafted notes about why someone had been cheated out of something or other by some little bureaucrat somewhere. Now, 70 percent of the time they were totally self-serving and 30 percent of the time they probably had a point. Again, I never saw the staff hesitant to monitor our performance.

Then we had a major problem with Aetna, our medical insurance company, who took over from NYL [New York Life]. But again, the monitoring mechanisms were just there; i.e., staff feedback. When it comes to other things, it’s more difficult. Having said this, there is a need to add other feedback mechanisms including building on the attitude surveys.

Q: On the subject of the Bank’s presidents, what are your perceptions of President Wolfensohn and his mission? Some observers have maintained that he was taking on too much for the Bank and that a stronger focus on the main issues would be wise.

STERN: Well, I think in Jim Wolfensohn we’ve got a leader for the first time since McNamara. We’ve got someone who has fixed the external image of the Bank almost single-handedly. We’ve got someone who, by sheer force of his intellect and personality, has been able to take us into directions that many of us would not have considered feasible, not that they weren’t relevant or pertinent but that we as staff doubted that we had the potential clout or influence to do. For example, corruption, the whole corruption agenda: there was a lot of “tut-tutting” around the Bank, but staff said, “Well, of course it’s a problem, but what can we do about it?” He proved us wrong.

He has articulated the CDF. I firmly believe that good staff were already following a CDF approach. However, he gave it impetus and expanded it to the rest of the world. He was also instrumental in promoting HIPC [highly-indebted poor countries]. So Preston, [Barber B.] Conable, or [Alden W.] Clausen never had this impact; they were not leaders. And Jim, being a quick read, quickly absorbed development issues. A particularly good example of that is what he is doing now on information technology and the digital divide. Again, through sheer force of his personality, he is forcing the Bank to take a lead on Information Communications Technology (ICT). Theoretically you can use ICT to put the Library of Congress into a rural village in Africa with the Internet. None of us yet know the detailed prescriptions for how to do it, but it clearly is something incredibly important. And if we, as good development practitioners, are left to our own devices, we probably have tackled these issues but ten years from now and not tomorrow.

Jim understands that and is determined to overcome it. These are the true attributes of a leader.

Now having said that, some of his achievements have come at a very high cost. He does try to run the Bank as an extension of his own personality. You can’t run a bank of 11,000 people like that. To run an organization effectively, there’s got to be a degree of predictability. Managers and staff have to have the necessary degree of self-confidence. There’s got to be a degree of empowerment, particularly for senior managers. And Jim, finds it difficult to do that.
I sincerely feel that much of the outburst that occurred when my brother was appointed Chief Economist was not strictly related to his appointment. It was a way to get at Jim. Now, if you combine the above with the reality that the Bank staff are a very conservative bunch of people, if you combine it with the downsizing and related uncertainties of recent years, staff invariably suffered. We should also realize that Bank staff have a tendency to be negative and to moan! The glass is always half empty rather than half full; it’s always someone else’s fault. It’s never your own. But that’s the environment, and those are the behavioral things that we’ve been trying to change over the years. So, yes, Jim is the first leader since McNamara. He has made a very major contribution but it has come at a high cost. We’ll see what happens for the remainder of his term.

Q: In answering that question, you’ve touched on some of the other presidents in between there. Is there anything else you want to add about Wolfensohn’s predecessors?

STERN: I think Preston actually knew how to run a large organization very well, much better than Jim. That’s what he’d done at Morgan Stanley. And when he put into place the layer of Managing Directors and said, “When you talk to an MD, you’re talking to me, because we’re a seamless team,” that actually happened. But the guy was sick, the guy was tired, he didn’t understand the development mission very well. He might have been able to do so in earlier years or been capable of learning it. So I think Preston was someone who might have had the potential, but he was too old or too tired. Having said that, he commanded great respect by those that were close to him.

I think that if history books on Conable and Clausen are ever written, they will be seen to be pretty much nonentities. They never understood the key mission of the Bank and had very little impact. Well, Conable had a big impact through the ’87 reorganization, but, in no sense did he direct that reorganization, other than allow it to happen.

I think McNamara was, like Jim, a true leader. However, this needs to be put into historical context. McNamara was running the Bank in the ’70s. It was a very different world. The world was then seen as a simpler place. I meant, it probably wasn’t, but that was the way we saw it. The Bank’s agenda was expanding rapidly, but it was nothing as complex in the 1970s as it is now. We didn’t persuade people; we told them what we wanted! So it was a very different world. I mean, I don’t think Bob McNamara could have run the current Bank. I don’t think he understands the complexities of the world we live in now. The idea of building partnerships and participatory relationships and managing through consensus, Bob would have had no problem with the concept, but I doubt that he would have been able to accept the inevitable uncertainty that goes with such an approach. That would have been anathema to Bob. But he was superb at articulating a vision and molding the Bank into a machine to deliver that vision, whether it was right or wrong. Look, he made a speech on rural development at the Nairobi Annual Meetings in ’73, and within three or four years the Bank’s machine was crunching out rural development projects all over the world. In ’74 or ’75 he made his urban speech and we then did the same thing.

Q: Right, as a matter of managing or his method or organization?

STERN: Actually, he understood that extremely well.
Q: So, how would you sum up then the qualities, from what you’ve said about these presidents, what does it take to be president of the World Bank?

STERN: The criteria and attributes of a successful president change dramatically over time. The world and our understanding of development issues rightly and inevitably evolve, so therefore you’ve got to be awfully careful in articulating such attributes.

Q: What about Eugene Black?

STERN: Eugene Black and George Woods basically had the job of establishing a sound and respected institution that had credibility on the capital markets, which they did very well. They created a well managed, professional and financially sound entity. McNamara turned this place into a meaningful development institution with serious global influence. Jim understood intuitively and intellectually the new world that we live in: a world of many players, a world where you have to exercise influence on governments and civil society, not command and control them. He’s a superb salesman, and he’s able to bring together external coalitions.

Don’t forget that being a successful president of the World Bank probably is one of the toughest jobs in the world. You've got to be a great external politician and salesman. You've got to understand development. You have to absorb complex agendas. You have to have a feel for macro as well as micro economics. You have to now be able to form partnerships and relationships with all the key actors, all the way from the NGOs and the faith community right through to the captains of industries and heads of government. And you have to be able to run a large organization. And the honest answer is, there's nobody who can do all that. Any president will fall short on some aspects. Does the Bank now need to rationalize in a more coherent and predictable way? Absolutely! Is Jim capable of doing that? Probably not. But he will ensure that the Bank enhances its development impact. In the end, that is why we are here and why most of us enjoy our work.

Q: We would like to turn to some further or final reflections. Our question concerns the relevance of the Bank, and you have touched on this, too. The need for the Bank to change in order to maintain its relevance and effectiveness in the global economy has necessitated it to periodically reorganize. You've experienced in your career three major reorganizations: '72, '87, and '97, in addition to what seemed to be a continuum between '87 and '97, which we talked about also. Considering the inherent implications of such frequent organizational changes such as lack of continuity, low morale, adoption of a survival mentality stemming from job uncertainty and the fear of redundancy, in your opinion do projected long-term benefits outweigh short-term costs of such frequent organizational changes?

STERN: Let me tell you, the more and more I've gone through these organizational changes, the less confidence I have in them. That’s not to say that you should not seek the most appropriate organizational structure, but that other matters are more important. I'm more and more convinced that the real issues in organizational effectiveness have to do with behavior. If you can create a shared image of the current strategic priorities and mission of the institution (which will obviously change over time), and if you can empower staff giving them the freedom

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to operate within that broad mission understanding, I believe you can do an awful lot. So I'm not arguing that organization is unimportant, but I think there is a tendency to over emphasize organizational issues. Yes, in retrospect, I think we could have had less reorganizations. We could have had less absolutism in pursuing the right organizational model.

In retrospect, we should have given greater weight to promoting and cultivating the needed behavior and the strategic understandings, rather than on the organization itself. If I had it all over again, I would say, “Focus on basic incentives and the culture of the institution and reorganize less frequently.”

Q: What do you think your contribution will be to the Bank?

STERN: All I can tell you is that I think I've been pretty consistent throughout my career. I've always tried to be pragmatic, but base that pragmatism on the key strategic priorities we faced at any particular time! I've always tried to get my staff to follow that approach. Or let me put it another way around, there were three people in this Bank who've really impacted on me. Did I mention that earlier? There was Ping Loh, who taught me about being pragmatic and to find the "hot buttons" (as he used to call it) in terms of impacting on our client countries: for example, what are the key issues that worry them? how can you use them? Stanley Please taught me that a country-based approach was important; all issues clearly had to be faced within a country context. And Shahid Husain taught me that you can do both together. And that philosophy has guided me and I've tried to apply that fairly consistently.

That’s what I have tried to teach others. I think I have had some impact there. When staff would seek my guidance, they would often say, “Look, you know, this is the problem that I’ve got. This is what the Bank policy says. This is what the rules say. This is what the procurement rules say.” I always used to say, “Forget about all that. That doesn’t matter. Ask yourself what are you trying to do? What is the underlying problem/issue? How do I reconcile them? Why are you here?” Figure that out, and you’ll know what to do.

Q: What have you learned from your experience at the Bank?

STERN: Well, I've also learned that however good your analysis, you are more often than not likely to be wrong! Development is very complex and difficult. The chances that you have the right answer, policy or operational prescription are therefore not high! And so you must be humble and be willing to recognize your mistakes and to redesign your approaches when you realize you got it wrong. That was exactly the issue we faced in Arun. The staff and managers who made the early decisions could not face up to the fact that they just got it wrong. The cost of undoing it was that you lost a little bit of credibility, and you lost a little bit of face within the Institution. But that’s very hard for a lot of people in institutions to do.

Q: And what would your advice then be to current managers?

STERN: You need self-confidence, humility; you need to constantly work from first principles; and you need to operate as a team. And not to blame others. Take responsibility and be pragmatic. The Bank really allows you to do anything. That’s what makes it so much fun!
Q: What advice would you give people entering the YP program?

STERN: Have a lot of fun. Don't think you know all the answers. Use your professional education and training, but don't trust it. And make sure that you operate as part of a team.

Q: And what has it meant to you personally serving in an institution such as the World Bank?

STERN: Oh, I've had the time of my life! This is a job where you just get paid for having fun. It's intellectually fascinating. You get to ask all sorts of tough questions and then have to develop and implement practical and policy prescriptions. No, I have no regrets whatsoever!

Q: Well, thank you for a wonderful contribution to the Oral History Program.

STERN: Thanks!

[End session 2]
[End of interview]