WORLD BANK HISTORY PROJECT

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Transcript of interview with

WILLIAM DIAMOND

Dates: October 23 and November 1, 1991
Washington, D.C.

Interview by: John Lewis, Richard Webb and Devesh Kapur

FOREWORD

The following is a transcript of an oral interview conducted by the authors of the World Bank's fiftieth anniversary history: John P. Lewis, Richard Webb and Devesh Kapur, *The World Bank: Its First Half Century*, Washington, DC: Brookings Institution Press, 1997. It is not a formal oral history, and it is not a systematic overview of the work of the person interviewed. At times the authors discussed the planned publication itself and the sources that should be consulted; at other times they talked about persons and publications extraneous to the Bank. Some interview tapes and transcripts begin and end abruptly. Nevertheless, the World Bank Group Archives believes that this transcript may be of interest to researchers and makes it available for public use.

Note: This transcript was made by the Bookings Institution's World Bank history project. The copy of tape1 of session 1 that was transferred to the World Bank Group Archives has no sound on it; therefore, Archives' auditing of the interview began with tape 2 of session 1. Also, information is incorporated in the text of the transcript of session 2 that is not part of the spoken word; presumably these additions were made at the request of William Diamond or by the Brookings team based on unrecorded conversations with William Diamond or written material from him. The Brookings transcriber enclosed some additions in [ ]. Archives' editorial insertions are in *[italics]*.

WILLIAM DIAMOND
Session 1
October 23, 1991
Washington, D.C.

[Begin Tape 1, Side A]

DIAMOND: . . . and agriculture didn't become a priority also until the middle '60s after George Woods came, as John [Lewis] rightly mentioned at lunch last week. Then agriculture suddenly began to loom more. So I have no doubt that that's part of it, the Bank's interest.

There are two other things, I think, that are relevant. First of all, it's the history. How did we get into this development bank field to start with? There was that three-man mission to India, and we wrote an economic report, the three of us, and we wrote a strategy for--did I say India? Turkey! We wrote a strategy report and we identified projects, and the projects we identified were the usual big things, the Seyhan Dam, agricultural silos, grain storage projects, the rehabilitation of the ports. And during that mission one of the things that happened was, since there was lots in the newspapers about it, was the first World Bank mission to Turkey. But during that mission we kept getting telephone calls from industrialists and business people saying, "We want a loan for industry." And we kept saying, "Can you get a government guarantee?" "What! A government guarantee!" Bang! And it became clear that there was a lot of desire for it, and if we could lend, if the World Bank could provide capital for this, we couldn't handle it from Washington in a World Bank loan. Mind you, agriculture then to some extent was being taken care of. There was the Ziraat Bankasi, the big agricultural bank--which I notice in the current issue of *The Economist* has an ad saying it's the largest bank in Turkey, which surprises me. I thought the Isbank was. The Ziraat Bankasi and the U.S. government was providing a great deal of assistance in the agricultural sector. What struck us was the need for industry. When we invented the Industrial Development Bank of Turkey, our first name for it was the Industrial Development Institute. This was our code name in memoranda back in--did I say that there?--an industrial institute. So there's the history of how we got into it.

And then, finally, maybe the most important of these factors is bureaucracy. We developed a bureaucracy. We didn't have a bureaucracy in a development banks department; we had staff and offices. But it was a big agricultural department.

Incidentally, I recently had occasion to count up. At the time my department was abolished in the *[Robert S.]* McNamara reorganization we had 90 people in it dealing with development banks alone. This includes secretaries, by the way, but my guess is it would have been about two-third of that who were professionals--which was reasonably big for those days.

INTERVIEWER: Almost about a tenth.

DIAMOND: No, it must have been more than that by 1972, I'm speaking of.

INTERVIEWER: A tenth of IFC *[International Finance Corporation]*, you mean?

DIAMOND: No, this was the World Bank. It had already moved by that time. It was much smaller. [both speaking at once] There was much more than--yes, 1972? Well, you can easily find that out.

So agriculture had become very big, and agriculture had become a priority in the World Bank also, and they wanted to do things in their way. These were primarily agricultural economists—these were not the financial people--agricultural economists and agronomists. In about 1970, màs o menos, I wrote a memorandum to McNamara back in the Bank--and I was meeting with him weekly unless he or I called it off--saying--I'm sure I have that memo at home someplace--saying that it seemed to me wrong for the people dealing with agricultural credits to be pursuing one kind of policy with respect to providing credit while those dealing with things called development banks which were primarily industrial and to some extent tourism--and there were a few such companies that were truly multi-purpose; you'll find this says multi-purpose ones are okay, too, but there weren't many like that--for us to be pursuing a different line. And I said, "Never mind for the moment who's right. The point is we should know more of what's going on," and McNamara then issued an edict saying that all proposals and appraisals for agricultural credit projects must be sent to [my department] for review. This was 1970; it could have been 1971. It was in the last year or two before the reorganization.

I remember the guy who was then the head of agriculture in the Bank was very upset about it. I guess I was supposed to send it to him too, but I don't remember that part. It wouldn't have bothered me at all. He was very upset because he said, "What do you know about agriculture?" Well, I'll admit there wasn't much, but that wasn't the point. Finance was the point, not agriculture. What concrete results it had I don't know, but that would be an interesting memorandum for me, too, to dig up at this point, especially in connection with your interest.

INTERVIEWER: And who was in charge of ag credit projects? Do you remember?

DIAMOND: The guy at the head of the agricultural department.

INTERVIEWER: *[Lionel J.C.]* Evans?

DIAMOND: Evans, that's right. You're pretty good! Remind me of his first name.

INTERVIEWER: [both speaking at once]

DIAMOND: Lionel, but he wasn't called Lionel. We had a different nickname for him. [We called him Jim] And indeed for a long time Evans didn't want to talk to me, but we became friendly in due course, and he has turned up about every five years or so. I have several boxes of historical memos like this, but getting them, finding them, is a job.

INTERVIEWER: The impression I have is that . . .

DIAMOND: This is in response to your question, "How come they went in different directions?"

INTERVIEWER: Yes. The bigger problems, I think, have arisen with regard to the ag credit project, I suspect. I'm not sure that's right.

DIAMOND: I don't really know.

INTERVIEWER: We were at the short-term lending in most . . . It was quite a different . . .

DIAMOND: It was a different business. Well, just a minute.

INTERVIEWER: And they had components or . . .

DIAMOND: I guess it was mostly short term but not entirely. When I was head of the [South Asia] department after the reorganization, one of our biggest borrowers in India year after year was the agricultural bank, but I've forgotten what it was called. What was the name of the big agricultural bank in India? It had about four words in the title—Agricultural . . .

INTERVIEWER: This was the one [both speaking at once]

DIAMOND: Oh, I can see the guy who was . . .

INTERVIEWER: *[Purviz]* Damry?

DIAMOND: Oh, Damry was at one point connected with it. Purviz, you mean?

INTERVIEWER: Yes.

DIAMOND: But by the time I knew him he was in the central bank. In any event we were making loans year after year to this, and it may have been the biggest single borrower in India during this period and before. But we were making loans to them not simply for seasonal credit but for investment credit, for pumps, for the improvement, for the digging of wells. Wells and pumps are more.

INTERVIEWER: Cattle?

DIAMOND: Well, in Latin America, Uruguay, Peru . .

INTERVIEWER: Peru?

DIAMOND: . . Paraguay, and . . .

INTERVIEWER: Central America, livestock?

DIAMOND: Livestock, Uruguay. When I was deputy director there, there was a loan that had been started well before me, but no money moved, for fencing and for seeding and for wells; and nothing moved. They wanted money, and part of the program was supposed to include fertilizer, but the Bank wouldn't finance fertilizer because they said this was not a capital investment. This was annual maintenance. I went to Uruguay a few months after I had become Deputy Director and realized from talking to everybody what was going on. So I came up with a formula. The first application of fertilizer to a field which had been an underdeveloped field but to which you were fencing and welling and so forth and so on was an unusually heavy one to get it started. I said this was not maintenance; this was a capital investment, just as digging the well or putting up the fence was. The Bank bought this as part of the program. Then the money moved, and thereafter that was included in subsequent loans which were modeled over the Uruguay loan. I became deputy director for Latin America in 1960, so I guess that loan was made in about '58, the one that hadn't moved.

INTERVIEWER: But that isn't the first example of Bank lending for fertilizer.

DIAMOND: It was [as far as I know].

INTERVIEWER: It became a big thing in South Asia later on.

DIAMOND: Yes, but that was another--you're right. It was part of the [both speaking at once] program, I forget what it was called--import--program loan. [both speaking at once] That's right, not SALs *[structural adjustment loans]*. SALs came 15 years later. You're quite right. That was a first, and it was only by my discovering either through intelligence or luck that the first application was bigger, and I was able to include it in the investment [loan? program?].

INTERVIEWER: Very neat. Well, I threw out more as a question, but it's an impression I have, that the bigger part of the problem, the larger problem of DFCs *[development finance corporations]* have been with the agricultural credit. Now, one person that contributed to this impression was a conversation we had recently with Hans Binswanger. I don't know if you . . .

DIAMOND: You know, it's funny. I know that name, but I'll be damned if I think I know him! I can't attach any face to it.

INTERVIEWER: He came to the Bank about '79, I think, and he went into the development economics department. He came from an ag research center in India with . . .

INTERVIEWER: . . . ICRISAT *[International Crop Research Institute for the Semi-Arid Tropics]*, the CGIAR *[Consultative Group on International Agricultural Research]* center in Hyderabad . . .

INTERVIEWER: And now he's directing agriculture in Central America, and he really gave a kind of broadside against the Bank's agricultural lending policies and said that it had been largely disastrous and in particular all the area projects and the ag credit projects in Latin America.

INTERVIEWER: This is a comment. This is to the Board's sixth annual review of project performance audit results, 1980, in December.

DIAMOND: '80?

INTERVIEWER: Right. Rates of return on agricultural credit projects. It says, "During the Board discussion of the above a review of questioner was asked why economic rates of return were higher for agricultural credit projects than other agriculture projects and what lessons could be drawn from these results." So at the beginning of the decade the Bank and its reviews were all showing that ag credit projects had the highest rates of return. And so I think, one of the benefits of hindsight, but at that time it's an interesting thing, which sort of shows how . . . Of course, this says that the sample of audited projects was heavily weighted by India, and the projects in India had all done very well. Same thing now, looking at it in the ‘90s, ag credit projects in India in the '80s have been a disaster.

DIAMOND: You already made one comment about OED *[Operations Evaluation Department]*. I never entirely understood our adoptive criteria for what's successful and what's unsuccessful, especially when they attribute numbers to them. I just . . .

INTERVIEWER: It actually, Richard *[Webb]*, and I'll get you the actual correspondence–but there are lots of projects with a rate of return of less than 10 percent which they call satisfactory.

INTERVIEWER: Are there?

INTERVIEWER: Yes, that is not the only basis.

INTERVIEWER: And the other way around too?

INTERVIEWER: The other way around I have to check, but I have seen projects where the rates of return are six percent, five percent, where they said that despite all that this is still a satisfactory project for a host of other reasons.

INTERVIEWER: And are those rates of return, do they . . . shadow prices, or are they always really financial?

INTERVIEWER: They are all re-estimated economically which ostensibly includes [shadow prices].

INTERVIEWER: Ostensibly, but do you know for a fact whether they actually applied a shadow price?

INTERVIEWER: I think to an extent but not--to a limited extent, yes--but that's . . .

INTERVIEWER: We don't know? We just think?

INTERVIEWER: No.

DIAMOND: When did Binswanger join the Bank?

INTERVIEWER: '79, I think.

INTERVIEWER: '79 or '80.

INTERVIEWER: Or early '80. No, actually it was early '80.

DIAMOND: And when he was in the Bank did he deal with a lot of different regions, areas?

INTERVIEWER: Yes, because he was in development economics and tended to be available for any . . .

DIAMOND: Development economics?

INTERVIEWER: Until '87, under Ben *[Benjamin B.]* King at that time.

DIAMOND: Do you know Monty *[Montague]* Yudelman?

INTERVIEWER: I know him. I haven't talked to him now [both speaking at once]

DIAMOND: You might. He's been around a long while, and he has a broad range. I don't know when he came to the Bank, but it must have been considerably earlier than that.

INTERVIEWER: '71 or '72.

DIAMOND: How do you remember all these things?

INTERVIEWER: Well, I'm supposed to.

INTERVIEWER: Why don't you speak to him?

INTERVIEWER: We have. John *[Lewis]* and I about six weeks . . .

INTERVIEWER: I wasn't at the interview.

INTERVIEWER: Richard *[Webb]* was putting . . .

DIAMOND: Did you raise this point with him?

INTERVIEWER: No, unfortunately, we did not.

INTERVIEWER: I want to talk to him. [all speaking at once] That's a good reason to go back to him.

DIAMOND: Actually, I never worked with Monty, but he always gave me a good impression, and as far as I know he was highly thought of always. He lives just two blocks from me, but we see each other only when he's walking his dogs. He now works for or he has an office in the World Wildlife Federation.

INTERVIEWER: Right.

DIAMOND: He does some consulting work for them and either directly or through them for the World Bank and others. I wouldn't suggest somebody like Evans, even if he were here, because I really do think he would be tendentious. Monty, I think, would be . . . By the way, Willi Wappenhans was a big shot in agriculture for a long time. I do not remember when he left.

INTERVIEWER: He left in . . . We spoke to him . . . [both speaking at once]

DIAMOND: Wasn't it in '72?

INTERVIEWER: Right, after the reorganization, but he gave us an excellent story on agriculture 'til ['72] and I think from a lot of other records and sources including from OED, those old hands in agriculture. There was a big story about Evans sort of being--the story is that the Bank got the wrong "Evans."

DIAMOND: Got the what?

INTERVIEWER: Got the wrong Evans. There is another J.L. Evans [both speaking at once].

DIAMOND: That makes me feel better.

INTERVIEWER: And that was in London, and then this Evans got the letter by mistake and then promptly came, and they gave him the job. Whatever . . . Years later the right Evans came to . . . and said, "Well, I never saw anything. You never called me."

DIAMOND: The guy--I can't think of his name for the moment but you must know, who's the head of agriculture in OED?

INTERVIEWER: Oh, Graham Donaldson?

DIAMOND: Yes. I really don't know him--well, when I see him—but he too gives me the impression of being a pretty sound guy. He's another guy to raise this with.

INTERVIEWER: He's the one and his group of people that told us the story.

INTERVIEWER: Wappenhans's story was quite critical on ag policy. I was impressed by his general analysis. He suggested something that I found very interesting. Maybe this is too vague. He likes to think of the Bank, coming back to the godfather image, as having been very important in the early--let's say, in the birth--of a number of countries, all the new ex-colonial, ex-colonies and he thinks the Bank should be seen in [that way] . . . in the '50s and '60s, that this was a big part of the Bank's role in a number of ways. And this kind of fits with the role that the Bank now would like to play in Eastern Europe and with many of the other countries that have been born almost every year. I really sympathize with that, having been in a government in an LDC *[less developed country]*. I felt so helpless. I really looked and wished for the kind of wisdom that one could get from the World Bank or the Fund *[International Monetary Fund]* . . .

DIAMOND: Did I comment in there on the fact that often advice when it's accompanied by money has a greater respect?

INTERVIEWER: I didn't see that.

DIAMOND: I saw someplace yesterday or the day before my saying it, so I thought maybe it was in there. Yes, for many countries I suppose that will be increasingly so in Eastern Europe. That will be a major reason for money, to make advice palatable, acceptable. A great deal depends upon the country. For instance, in India. The Bank has been important in India, but I would guess, except for here and there, only marginally. India is so big and the investment so great and its role in the world so great that the Bank financially is more or less marginal. Do you think that's an over statement?

INTERVIEWER: Yes, except now. That's the irony.

DIAMOND: What do you mean, except for now?

INTERVIEWER: That now . . .

DIAMOND: They really need the Bank's money?

INTERVIEWER: Yes. I mean, because of the foreign exchange crisis.

DIAMOND: A new foreign exchange crisis? That's right. I say, "new." Remember the origin of the consortia?

INTERVIEWER: Right.

INTERVIEWER: And "the three wise men" who traveled around Europe, or traveled around the world--traveled in India and then later around the world. You know what I'm referring to?

INTERVIEWER: No.

DIAMOND: When the foreign exchange crisis hit India in '60--'59?--the Bank was always partial to India in many ways. Well, the reason was it was so big. India was so big that the president of the Bank has always felt that he had to be the loan officer on India, or at least the executive vice president on India. This is from *[Eugene]* Black on. The idea of a consortium came up and getting bilaterals to invest as well as private banks to invest, and the World Bank sponsored a three-man mission. One guy was Hermann Abs, the second one was Sir Oliver Franks, and the third one was the American banker who was the former head of the Federal Reserve of New York. Remember his name?

INTERVIEWER: *[Allan]* Sproul? It's hard!

DIAMOND: I caught you! And they roamed around to get this first-hand impression, and they were the guys who were responsible for helping back up the Bank's push to create a special consortium to provide aid to India for the foreign exchange crisis at that point. They were called "the three wise men." This year the consortium produced, what, $5 billion, $6 billion?

INTERVIEWER: I think six.

DIAMOND: Yes, when I was chairman of the consortium we were immensely happy at one billion.

INTERVIEWER: Yes, but in real terms . . .

DIAMOND: I know, I know! In real terms--

INTERVIEWER: We should have you back later for . . . quick

INTERVIEWER: . . . is even less. There's no change at all. Real . . . capital.

DIAMOND: Don't you get it in---oh, you have a different deflator for every year? Oh, yes.

INTERVIEWER: Yes, it's really interesting. A lot of the numbers change rapidly.

DIAMOND: I know. I [all speaking at once]

INTERVIEWER: You know, when you mention average loan size, and these . . . figures, really the average loan size of the Bank has not changed. You know, $100 million in 1970 is equal to about $300 million now.

INTERVIEWER: And in addition if you deflated the World Bank's by the borrowers' GDP--which has grown--as a proportion of GDP, there's no growth . . .

DIAMOND: You may want to think of another time to meet with me, if you want to. But let me make a comment on this question about IFC, "Were the manner and objectives of PFC *[Private Finance Corporation]* lending different when it was located in the IFC than when it was in the World Bank?" At that time, no. It was the same. After all, when it was located in IFC, we were given the responsibility for all development bank work in the World Bank; and, when a World Bank loan was at issue, my department in IFC wrote the appraisal report. Mind you, there was the working party system so that others could have input into it, and we wrote the relevant section on the project and the marketing environment--let's call it that--for the president's reports. This was part of the World Bank's report to the Board. There was no separate thing. We looked at the same thing. This 1968 thing, I was in IFC. This was a World Bank policy. It says a good bit about IFC too. So during that period in the mid-'60s, there wasn't a difference. It was the same except, of course, that one provided equity and the other provided loans. A time would come when it was impossible to get a guarantee for a World Bank loan, so the IFC might give a loan as well as equity. And because of that equity/loan situation [because it provided loans], the World Bank didn't put people on boards. There was that one what I called "aberration" in here, putting in ? [who -- Diamond does not know] on the board of the Turkish Development Bank, but he wasn't the World Bank representative. And IFC did enter lots of discussion and fighting both inside at IFC and . . .

[End of side A of first tape. Side B did not begin until about 204 feet for some reason and then was too fast up to about 205.]

INTERVIEWER: . . . I think his daughter married the guy who became the Minister of Finance in Mexico.

DIAMOND: I don't recall Stanley, although at that time EDI *[Economic Development Institute]* was a very close-knit institution, particularly . . . [tape ran away with itself here, then ran perfectly to the end] . . . commented on some of the purposes, types, and so forth; but to get an idea I think you really should take a look at the [first] operational memorandum on DFCs of '68, and then I happen to have the one from '70, although in this book you have some others. Here there's a big section called "Main Features of Lending"--what we looked for, how the project was described, withdrawals from the loan account, pre-approval of projects, commitments, amortization, use of loan-per-share capital--this is what I just told you about--and so forth and so on, audit requirements. That was something that I discovered was abandoned subsequently.

We had an absolute requirement that sometimes gave us great trouble with the locals, that before a loan was made, the Bank had to have a satisfactory audit. This usually meant, since not many developing countries had well-qualified auditing firms, an outside company, Price Waterhouse or its equivalent, Coopers and Lybrand or some such, and a lot of the development banks didn't want that. But I believe it [the requirement] was ultimately abandoned. This was especially important when the time came for lending to government development banks because government development banks always had audits, but it was by government auditors who were there primarily to see that the company was operating in accordance with the law--and that's far from being the whole job of an auditor.

INTERVIEWER: I was wondering, if you had continued good auditing in the development banks in the '70s, if one would have picked up signs of financial distress somewhat earlier?

DIAMOND: I don't know.

INTERVIEWER: After all, that's supposedly the whole point of an audit.

DIAMOND: Maybe. I don't know. I wouldn't like to say.

INTERVIEWER: One of the things that also struck me, reading the oral history and your own other papers, is the almost godfather's role that the Bank seemed to have at that time, for instance, in appointing people. You have a number of . . . . I'm afraid I don't remember . . . It's just gone into my general impression--quite interventionist, helping, and informal in many ways. I have a sense that that role was very important, the way you talk about this. I find this through the history of the Bank. The Bank is always seeing itself as an advisory influence and so on, a fomenter. But when it evaluates itself, it tries to boil everything down to a rate of return, a good investment or a bad investment. Today people really believe in these numbers OED puts out. It's a success or a failure, and that doesn't seem to fit very well with what the Bank sees as its main function, but, of course, I can see it doesn't have a way to put a number, and it needs to put some kind of . . . And it's a bank after all. But I think this certainly evolved over time.

DIAMOND: Let me make two comments on that. First of all, I think you're quite right. Godfatherly, I guess in the good sense—in the non-Mafia sense

INTERVIEWER: The thing is in Spanish it's a very nice term.

DIAMOND: I know. Last night Ted Koppel in speaking to Oliver North said, "You were the godfather of such and such." He said, "But I mean that in the good sense!" You're right. A great deal of it was [involved?] For instance, for years we were bringing senior staff from the development banks, sometimes the number one man, sometimes department heads, to have him spend a month or two—not a few days, but a month or two--with Bank staff dealing with matters relevant to development banks, putting him in the industry division to work side by side with someone who was working on a good project. Now, this was very informal. I did it in my [department] but I made the arrangements, not the World Bank. The only requirement was that we didn't pay for it. If they could pay for it, I would set them up. And there was no objection, no objection whatsoever. They came and spent a month with somebody in the industry division. They came and went over into IFC. If they were an engineering type, they would go into IFC's engineering department for awhile, and they had an orientation. We did it totally informally, and it would not surprise me if you were to discover that the powers that be in administration or management didn't even know anything about it. I thought it was the right thing to do, and I could do it then.

There were lots of things, such as salary increases, which even I could do. When McNamara came I wrote an 80- or 90-page paper [on the activities of the DFC department]. It never went beyond draft. He wanted a briefing on development banks. In there there's an annex in which it shows how many of these things we had arranged for from the beginning, 1952, roughly, 1950-52, up until that time, the summer of 1968. You can see it. It comes to quite a few.

INTERVIEWER: Do you have the draft?

DIAMOND: Yes, I do.

INTERVIEWER: It could be really interesting to see those as sort of the way the Bank informally . . .

DIAMOND: You'll even find McNamara's penciled remarks on the side. I've had occasion to look at it. Well, I don't mind your seeing it, but you've got to look at this as a quick draft.

INTERVIEWER: Right. No, it's more the annex, these sorts of things, the informal things.

DIAMOND: Yes, and I mentioned to you a few moments ago the effort we made to put together a program of projects by these financed and the results from six companies to start with. [We also developed an annual tabulation of the activities of the institutions the Bank? financed and the results.] It was not just for the education of the World Bank. It was for their education. We sent copies of those [annual tabulations] to all the development banks after having gotten permission from the company to do this, and, since a great many of the figures but not all were published ultimately in their annual reports, most of them didn't have any objections. This continued until about [several] years after the breakup of the development banks department, and then it stopped for lack of interest. [In the early 80s, when I had a job as a consultant for Harindar Kohli], Millard Long and I had a discussion about this. It would have been his responsibility, and he tried to get it started but couldn't. He and I had reasons to remember this a week ago when I was visiting with Long because of something he asked me to do. This was a very useful document, but here again it was for their education as much as for ours. One of the reasons no doubt was the declining interest--which [as a result of] the *[Fred]* Levy report *[Report of the Task Force on Financial Sector Operations]* is beginning to revive--in institutional development. This was sadly neglected, and I think most of the people who dealt with development banks for a long time, like Khalid Siraj, will tell you this flat out--and others who've been involved in the business for a long while. There was less interest in this, and this was not unrelated to the second factor, the shift of interest from the development bank itself to the sector. And related to this also is the question of apex lending because interest was shifted [from the real intermediaries to the channel through which the Bank funds moved. You can see this] in that paper. [I gave you that I understood the] reasons. But the fact is it distanced the Bank from individual institutions until the mid-'80s really—when the situation of the individual institutions forced itself upon the Bank because of the increasing financial problems that they were facing.

So the links to the individual institutions were greatly weakened generally. One of the bad things that's happened, of course, is that the people who remain in the Bank dealing with financial institutions have had very little past experience of dealing with them now because they came in in the period of the sector orientation with which, as I've indicated, I agree entirely, but I don't agree with the abandonment of involvement with the institution, individual institutions. They have less and less [institutional] experience with them. The . . . policy of the Bank is increasingly important. The rotation into totally different kinds of jobs especially at the division chiefs level because at that point you're not supposed to know anything about substance. You're supposed to be a manager.

INTERVIEWER: On this one aspect I find it a little hard to digest. They're called development finance companies. In all the discussions about institutions, financial roles, long-term lending, and so on in the capital markets, there is an absolute total separation of agriculture from them.

DIAMOND: Yes, you asked a question about that.

INTERVIEWER: Yes.

DIAMOND: And you want to know why.

INTERVIEWER: Yes, I mean, Levy now. It's one of the points he makes: there's no reason for the separation. I remember being struck by it when I read *The Road to Huddersfield* because it took me back to the mentality of the '50s when development was industry. It was much more industrialization. The very title of the book just expresses it so fully, and I can see that maybe that has something to do with it. Or was it more a sense that agriculture was much different from this, or that the Bank at that time just . .

[End Tape 1]
[Begin Tape 2, Side A]

DIAMOND: [Lost in changing of tape] . . . merge in various ways. I think this is related to the fact that the IFC--that my department was moved to the World Bank, and IFC, to establish its separate identity in this field, began to focus on capital markets per se. Mind you, if you read the early documents about the World Bank's interest, you'll see that the World Bank was always interested in capital markets, but for a whole variety of reasons, including the World Bank's statutes, they were locked into the lending mode. They could still have been concerned with the sectors. The Bank didn't become concerned with the sector until about ten years later. But IFC began to focus on capital markets per se. Hi, John! [John Lewis arrived.]

LEWIS: I didn't get here in time to get . . . and I didn't get the interviews today noted down at all.

DIAMOND: Well, you can be in for the second interview, if there is one.

This was focused by and large on one particular fellow, David Gill, who was explicitly hired by Bill *[William]* Gaud to promote the capital markets area. David was more and more interested, helped to drive IFC more and more into the capital markets area and to decrease its interest in development banks except where equity was involved, in which case there continued to be either IFC acting alone or IFC working jointly with the World Bank in a joint operation of loan and equity to the same company. But from then on, from the beginning of the '70s, you find a decreasing—I think, as I see it—a decreasing amount of interest in development banks in IFC and increasing interest in other types of financial institutions. Please don't ask me to define "development bank" at this point. But it was then that they began focusing on leasing. They began focusing later on venture capital, ultimately on insurance and on commercial banking, commercial banks, and so forth. And the development banks that they were interested in were primarily those in which they already had an equity interest, plus a few others.

Then there was a knock-down drag-out fight inside IFC in about 1980, ‘81 between Gill, still head of capital markets, and the regional department directors including *[Douglas]* Gustafson, whom I mentioned to you, in IFC, because Gill was running his department more or less as an independent enclave in IFC. The regions didn't know what he was doing, and he wasn't interested in what they were doing. But from that point on I think there was an edict issued by, in *[Hans A.]* Wuttke's time [roughly the mid-80s], ’81, ’82, something like that, saying that even development banks, unless work with them involved a carry-over from work that had been done in the past, those two would be the responsibility of Capital Markets Development, CMD. From then on there was very, very little in this field. My involvement with the Portuguese in--I call it an investment bank; I think that's a better word for it--was one of the last of those that were under the management of the regional head, and it still is except IFC has gradually sold out most of its--the bulk of its holdings in that.

So, as I say, during the '60s there was no difference between IFC and Bank because it was all run by the same department which had responsibility for both parts. Beginning in the '70s there was a divergence. This divergence created problems or aggravated some problems between IFC and the Bank but also created problems, bureaucratic problems, inside IFC itself which that edict of the early [mid] '80s was supposed to solve.

KAPUR: There is one thing in particular I was just wondering about. In '64 when the Bank's Articles were first amended to allow the World Bank to lend to IFC. Now, the story which we've heard is that George Woods wanted to lend directly to the private sector, wanted the World Bank to lend directly to the private sector, and that there was a lot of opposition to that and that it was suggested to him that he could get around that by simply lending World Bank money to the IFC which was already an institution created under the banking group umbrella which could lend directly to the private sector without guarantees. I'm asking this to sort of contrast that episode to this year's episode around the IFC capital increase. It is also related to the World Bank Group's sort of lending to the private sector without government guarantees. I was wondering if you [could address this].

DIAMOND: That first point doesn't sound—your point, the argument that Woods promoted the $400 million authorization and $100 million first loans to IFC in order to get the Bank involved in private sector lending doesn't make any sense to me. I've never heard it. My own interpretation of why he did it was that he saw, as many did by then, that IFC, which had the potential of being an extremely important institution in the world, as I believe it has now become, had no future at the level of 20, 25, 30 million of commitments a year. When Woods became president IFC was committing about 20 million a year. When he left it must have been 60 million or something like that. One reason it couldn't is that it didn’t have any foreign *[inaudible]* [it had only its share capital, a mere $100 million]. There was a big battle about whether it should go to the market, internal battle, or should borrow from the World Bank. This is what I understand. I gather than Woods's view at the time was that having another institution, a quote "independent” institution which had the same president and same board of directors, going to the market simultaneously with the World Bank would confuse things, especially since IFC was [to a large extent] then relatively an unknown. It would be much better for us to do it. By "us" I mean the World Bank. That makes sense to me. I don't mean his argument about why the World Bank should lend rather than let IFC go to the market, but the argument that IFC needed size, it needed size, and it didn't have one penny of borrowed funds at that time.

The argument is also [often] made, as you know, often that *[Martin M.]* Marty Rosen was very unhappy about the borrowing from the World Bank. He never told me this, but it sort of rings true. He felt that it would result sooner or later in the World Bank being excessively influential in IFC. It's true that the World Bank has [so been], but it's been at the level of the president, and it hasn't been true through the lending that took place at that time. Funding was size in Woods' mind. The Bank was lending to the private sector at that time. [both speaking at once] Mind you, it had the government guarantee through development banks and sometimes, as in the case of India, the big steel companies.

KAPUR: India Iron and Steel?

DIAMOND: India Iron and Steel had the government guarantee, I guess, but in India government and big business is the same.

But I've never heard that argument, and somehow it doesn't ring true [both speaking at once] to me.

KAPUR: [Was there actually a] Board paper?

DIAMOND: In the what? Board paper?

KAPUR: Yes. And I have to go back to it.

DIAMOND: Well, I'd love to see it because maybe it will trigger a memory. That [the story about lending to IFC] doesn't sound right.

KAPUR: But he . . .

DIAMOND: I've got to go because I have a 12:30 engagement. You want to meet again?

[End Tape 2, Side A]
[End of Session]

WILLIAM DIAMOND
Session 2
November 1, 1991
Washington, D.C.

[Begin Tape 1, Side A]

DIAMOND: The major issue that I recall at this time was the program lending, and the reason was as follows: the Bank had been making program loans in Pakistan and in India for some time.

In India every year there was one. But, if I remember correctly, the Bank was satisfied on the overall program and then simply agreed on a list of goods for quick disbursement, period. But for the first time, I believe, in Bangladesh we tried to link the program lending to specific objectives. X amount was to go to revive the cotton industry. Y and Z amounts were to go to revive jute or a certain amount of other things. And we tried to lay out a program—we tried to lay out a program of structural adjustments or sectoral adjustments for those particular industrial sectors. It was not, as in the other cases, simply drawing up a list of goods. It was trying to tie that list of goods to a specific program of policy, investment, and production requirements. If my recollection is correct, this was sort of a step, a tentative step toward something which these days is called sectoral adjustment loans and SECALs. And whether this kind of program lending, this modified program lending that I've talked about, was continued after my time, I don't know. But we made two or three in such loans for Bangladesh in the years that I was in charge, specifically oriented towards key sectors with policy objectives as well as production objectives. I have forgotten about that—you'd better check that out.

WEBB: What was the government's attitude towards that?

DIAMOND: I really don't remember. I can't go into that. I was involved in that only three years, and then it came to an end when I decided to move out and become an advisor to the Senior Vice President for Finance. And then I had an operation which knocked me out and which, with its aftermath, knocked me out of work for close to a year. So I have no doubt that if I sit and think about Bangladesh, I'll recall things--such as visiting with my wife just after the famous, the big, big typhoon, you remember, when a half million people were killed, and then visiting Bangladesh a year or so later, when I was in charge, going with David Dunn for my first visit to Bangladesh and actually visiting some of the affected areas. But I don't remember enough about Bangladesh really to talk about it.

KAPUR: By early '71 you were already in South Asia?

DIAMOND: No, from October 1, '72. That was when the reorganization took place.

WEBB: Oh, I see. I was wondering if you recalled any of the internal things in '71 when the Bank was sort of caught between India and Pakistan.

DIAMOND: No. I wasn't involved. That took place at the beginning--well, '71-'72, as you say--and the McNamara reorganization took place as of October 1, 1972. It was only then that I moved into South Asia.

KAPUR: What was your designation then in South Asia?

DIAMOND: I was Director for South Asia. Technically it was called "Country Programs, Department One," but I refused to sign myself that way and refused to put it on my visiting cards. They were very mad because there was a rule about these things. I simply put, "Director, South Asia," which covered India, Pakistan, Bangladesh, Sri Lanka, Nepal, and Burma.

KAPUR: The definition of South Asia, I found, has changed so much. At one time Iran was under it and Afghanistan.

DIAMOND: That's right, that’s right, that’s right, but that was a long time ago.

KAPUR: And then after '87 Pakistan was part of Europe and the Middle East, not in Asia.

DIAMOND: That was after '87, yeah.

KAPUR: And now it's back under South Asia. And for us to get some data is just maddening!

DIAMOND: Was it to you that I commented--certainly I have to others, and others have to me--this business of dividing and re-zoning Asia has gone back and forth six or eight times in the history of the Bank.

KAPUR: Eight times!

DIAMOND: Maybe six, maybe ten! Look, before you proceed to ask me, may I add a few things to last time?

KAPUR: Sure.

DIAMOND: First of all, a correction. We were talking about those operational and financial statistics which were created in that old DFC department, the DFC department, and which we sent to everybody, you remember? And I think I said that was abandoned in the middle '70s. In fact--I should have remembered this—it went on to the beginning of the '80s, and Millard Long, who was in charge then in the Industry Department, tried to continue it but couldn't. He couldn't for two reasons: it had become a colossal job because of the number of institutions the World Bank was associated with, and even with a special person on a computer they couldn't handle it. More important, it would not be possible for one central person to obtain all the figures without assistance, such as in personnel numbers and so forth, without the assistance of the Bank's operational people. Millard tells me that he found it impossible to get them to devote the effort or even to express, even to signify any interest in these figures. I was able to persuade them, but then it was a smaller business at that time.

In my time there was then one staff member managing the work, whom I hired specifically for this purpose and a few allied purposes, who did all these calculations by hand. We didn't have computers yet. This was a Korean whom I found as a teacher in Lincoln College--or is it called Lincoln University?--in southern Pennsylvania and who later on became a technical assistant to the ED *[Executive Director]*, then an advisor to the President of Korea, then Deputy Prime Minister, and finally governor of the Bank of Korea. Then he retired, and after all the murders, you remember, in Burma--when 18 high officials were killed--he was brought back into the government for a while. I believe at this moment he's head of the Korean Bankers' Association. But you were aware of those statistics. You've seen them?

KAPUR: No.

DIAMOND: I have one here. I've forgotten how this subject came up. I think it came up when you called me a "godfather." And that's the next thing I wanted to comment on, the "godfather" concept in the good sense of the term.

WEBB: For me it's good.

DIAMOND: And I must say the more I thought about it, the more I liked it in the usual sense, and the more I remembered which had slipped my mind. We persuaded or twisted arms of Bank and IFC people to prepare for us bibliographies of publications on the subject of development banking or of interest to development banks. We sent these bibliographies to them all, free of charge, as a service. I don't know whether you have ever seen these bibliographies. I recently had a chance to look back over them because Millard Long was writing an article, and he needed to add a bibliography. There is no bibliography on development banking around, and I was able to produce these. They're old, but [they get you started?] For instance, I got the engineering department of IFC to do a bibliography of technical books, articles, and journals which a well-run development bank ought to have in its library. This was a 15- or 20-page affair. A general bibliography was started by the same Korean who did the financial and operational statistics. Later it was completed by a Burmese girl who worked for me whose father Sanlin was a middle-level official in the Fund. Valerie had a U.S. degree in economics. We revised this several times in my time, and even after my time I was able to get IFC to update the engineering bibliography once or twice. I personally then sent them to everybody as a "godfatherly" act. Maybe we should call this a "grandfatherly act."

Next thing, we talked about training. One matter I forgot. When a new bank came into existence or when an old one was expanding, we offered to take care of some of their senior people at times. We would bring them to Washington one at a time. They would spend a few weeks with us, either in my department or in one of the technical departments, which was much more interesting because they participated in actual industrial appraisals, appraisals of commercial institutions. I would reach an understanding with the head of the department. "Mr. X wants to come here. I think he would do well here. Please assign him to a division of a person who has an active project before him, so the 'trainee' can sit with him and work with him--he can be his assistant, if you wish, but work with him through the appraisal process."

Then I also tied them up with our more advanced development bank friends abroad. They would go, for instance, for one to three months to ICICI *[Industrial Credit and Investment Corporation of India]* in India or to the Industrial Development Bank of Canada. (Now it's called the Federal Business Development Bank of Canada.) The World Bank had no formal connection with it, but I had one because we used them for various training purposes and we used their general manager as a consultant. They would go up there and spend a few weeks, again with the understanding that they would be put into a specific department and work. We also used the Industrial Credit Corporation of Ireland, which is a pretty good institution, and a few others with good experience. I preferred to put most "trainees" in a developing country rather than in Canada or elsewhere, Ireland, because they would feel more at home in the kinds of problems that were being encountered. I didn't get any approval for this from anybody in the Bank, but then we didn't charge anything. The "trainees" had to pay their way. We laid on the program for them here and with other development banks abroad. ICICI sent people year after year, six, seven, eight people, the Industrial Development Bank of Turkey, PICIC and many others. After our department dissolved in '72, this was abandoned. I should have remembered this when we last spoke.

In the briefing about development banks that I prepared for McNamara when he came to the Bank (about which I told you), there is a table which says how many of these "trainees" came, who they were, and to what companies they belonged, during the years 1962 when the department was created until 1968 when I prepared this briefing for McNamara. Here is a copy of the briefing. The operational statistics and bibliographies, we've talked about.

Then, finding people for senior staff. That, I think, you questioned me about last time. We did find people to be the number one man or number two, either as advisor or actual manager. And again there are statistics here in the briefing on the years when we were doing it. The table goes back to the very beginning of the Bank.

And finally, something I had forgotten completely about, but again it's in this book I sent to McNamara, what I called our special information service. We would send them, the development banks, copies of documents that the World Bank produced, sometimes people outside produced, which we thought would be of interest to them. Here is a list from my note to McNamara. We'd send the document with a covering letter saying in effect, "Here is this. You'll be interested in such and such," and it was for their library and for their information. That was abandoned. I put that also under the heading of the "godfather" or "grandfather" activity.

WEBB: All of these things were abandoned?

DIAMOND: Yes. Then, I must tell you from a strictly personal point of view--all of this in a sense was personal, you see; I took it fairly personally--but from a strictly personal point of view I'm going to show you something which to me was the acme of godfatherliness. It's rather amusing. In about 1972 or 1973--I've forgotten when--somebody came back from Korea and said to me with a smile, "I was very interested in your collected papers." I said, "What are you talking about?" He said, "Didn't you know that the KDFC" (which is now the Long-Term Credit Bank of Korea--it was then called the Development Finance Corporation of Korea) "has put together a series of the letters and memoranda you sent to them from '67 to '72 both as an introduction to the background policy of the company and as a guide to how to write good letters in English?" And I thought he was pulling my leg! So I wrote to them KDFC and, yes, this is what they sent me.

WEBB: Oh, my!

DIAMOND: August 1971. Look at the introduction. That's the President who later became Chairman. Anyway, I put that under the heading of "godfather." You're not interested in this, I presume.

KAPUR: Well, we'd like to see it.

DIAMOND: Would you like to glance through it?

KAPUR: What we'll do is make a copy of it.

DIAMOND: You can make copies of anything you want in there.

Now, another subject I want to amend or to amplify: you tried to question me about why McNamara brought development banks back to the Bank out of IFC. I never knew but I gave you my guesses, and one of the important things was the issue of volume. It was becoming a big business and would become much greater under McNamara and would continue to grow even beyond McNamara. And this, bringing it back to the Bank, resulted in a divergence of views between the Bank and IFC on development banks. You remember, I told you that when Gill joined IFC, he was put in charge of a new department. It wouldn't touch development banks, and I think this was an extremely important matter resulting in a division of, a rather significant factor in the divergence of views between the Bank and IFC on the subject of financial institutions in the ‘70s. From that time on, without at first abandoning development bank activity for which I was their (IFC's) technical advisor, they focused more and more attention on the capital markets rather than DFCs. Gaud issued executive orders (or whatever they were called) and public statements about the reasons for setting up this department.

But it had some consequences. They began to think less of institutions per se than they did of capital market policies and began to think more and more also of the financial sector as a whole. Before the Bank got into the act, IFC began in a small way to focus on the capital market in the early '70s. The Bank didn't expand into this area until the end of the '70s, the beginning of the '80s. So you've got the beginning of the emergence of the divergence between the two institutions in this area, the Bank continuing to focus on development banks, whatever they are, and IFC on the financial sector, especially the capital markets part of it, and was concerned with public policy and legislation and other kinds of acts necessary to produce an enabling environment for the capital markets in its member countries. So in a sense IFC was the Bank family's precursor, beginner, of the financial sector orientation.

KAPUR: One might have thought that this could have been or ought to have been just the reverse, that the IFC would have been the transaction-oriented institution, would have actually focused on the GNP, whereas the Bank with its larger economic focus would have focused on the financial sector, enabling environment, and so on.

DIAMOND: Well, one might have thought that. The first part of what you say was the case, IFC's concentration on development banks while the Bank-wide department was there, but when it moved over here, they then began to pursue a different kind of course.

There's another factor, I think. Beginning around that time the Bank became overwhelmingly interested in disbursements, capital transfers, and you don't get fast capital transfers when you focus on policies and creating an enabling environment. The Bank was more interested in quick loans, making them quickly, getting the numbers up, and that may have been one reason for the delay in focusing on the financial sector. Also, at that time the development banks at the beginning of the '70s still weren't doing badly. It was only with the changed world and national environments of the late '70s that they began to do very badly, and then the Bank's attention was sharply focused on this, not by an act of will or an act of intellect but by externally induced necessity.

KAPUR: When is your sense of--although you were out of it--that the whole DFC business or some of the DFCs, or your sense of some degree of uneasiness? Do you remember a particular incident?

DIAMOND: No.

KAPUR: '75, '78, '80?

DIAMOND: No. But, you remember, this was happening just as I was leaving the Bank.

KAPUR: Right.

DIAMOND: They were still doing pretty well. You saw that paper by Ravi Gulhati and me. They were doing pretty well financially in '73 when we wrote that. Our problem was with their development orientation.

KAPUR: There's a Board paper in '75 on DFCs.

DIAMOND: Oh, a DFC policy paper? Yes. This was when Gustafson had become head of the rump of the department. What's this say in effect, anything? Good or bad?

KAPUR: Basically that it's a pretty good thing.

DIAMOND: That's what I would have thought, and I believe the operational memorandum of '76, which you have or is in that black book, is fundamentally the same as the original one . .

KAPUR: Of '68?

DIAMOND: . . of '68, as modified in '70 and in '72 with the main differences being opening us up to government development banks and a few other things like that.

KAPUR: Right.

DIAMOND: So then, of course, in '76 was my big operation. In '76-'77 I was pretty much out of the picture except on the fringes. When I began to return to work, it was six months later and then only part time. And I was in things totally different.

So I had my friendships and my personal links, both abroad and at home, but my sense is that this began happening at the end of the '70s. But you'll have better sources of information, and there will be lots of documents.

KAPUR: Right.

DIAMOND: I mentioned Khalid Siraj last time. I urged you to see him, and I said that he was the head of a task force on the financial problems of development banks. He was also a member of the recent Levy task force. He probably knows more about DFCs than anybody in the Bank group now, but he headed an early task force--I don't remember the exact date, but it would have been the end of the '70s, beginning of the '80s--on the portfolios, what's happening to the portfolios of the DFCs which were going sour. There's a report on that. He will be able to give it to you even if you can't find it in the files. But that's my sense, around that turn of '79-'80.

Now, you asked for my briefing to McNamara.

WEBB: Oh, Bill. This point about the IFC capital market as being sort of a precursor.

DIAMOND: You probably won't find many people who've ever said this, and you probably won't find many--certainly not in the Bank--who will agree with it.

WEBB: But you said there was an element of some transfer of persons or ideas to the Bank? Or was it kind of an accidental parallel?

DIAMOND: Well, there certainly was a transfer of ideas, but remember these dates we were just talking about. The capital markets department was set up in 1970 or 1971--probably that winter, the beginning of '71--and that's when they began the new focus of IFC's interest, and they were very slow getting started.

The Bank didn't really begin focusing on the financial sector until the end of the '70s, beginning of the '80s. And I would say that what was most influential on them was the deteriorating portfolios of their development banking clients, not the transfer of ideas. Transfers of ideas back and forth between IFC and the Bank have not always been the easiest thing in the world, as you no doubt know from many things.

KAPUR: Why do you think that has been? I mean, one might as well at some times say that IFC ought to be a completely separate institution, given that the tension between them has not really been a creative tension?

DIAMOND: Two days ago when I had lunch with Bilsel Alisbah, he was talking about the same thing, and he agrees with me that the blame rests with people on both sides. Year after year, or every other year at least, some kind of task force is created to work out an accommodation, a modus operandi, modus vivendi, between them, and then every year or every other year they have to go over it again. The latest one was just this year in a document that was prepared for the signatures of *[William S.]* Ryrie and *[Moeen]* Qureshi, which appears as an annex or an appendix to one of the policy papers at the beginning of the year. But four years ago Douglas Gustafson was the head of one with the director–with Amnon Golan--when the latter was head of the Industry Department, which no longer exists. Golan is now head of EDI.

I don't know why this is. Now, one of my guesses--I thought I had mentioned this the other day here, but I certainly referred to this in speaking to Bilsel Alisbah. On the Bank side, even though I would guess three-quarters of the World Bank has no recollection of Robert Garner and Marty *[Martin M.]* Rosen--never knew them--the feelings that they engendered among Bank people when they were the heads of IFC have lingered on. Garner was an extremely nice guy but an outspoken apologist for the private sector. Mind you, the apologism was primarily in speeches and writings, not in the way in which he behaved. Nevertheless, there it was in his speech. You can read about his speeches in the newspaper, but to know how he behaved, you have to read appraisal reports and so forth. And it was easier to do the former than the latter. And in the case of Marty Rosen, an extremely able but aggressive person, who had both staunch personal allies and staunch personal enemies; he was able to make them both, like many good people do, in fact. And that seems to have lingered on.

And then another factor, of course, which didn't exist at that time but it has existed increasingly since, has been the scale and the overlap of operations. At the time in the '60s when Garner left IFC and when Rosen began, they were doing about $20 million of business a year. And when Rosen left I think it was up to $60 or $70 million a year--just peanuts! But now it's a billion and a half dollars a year and growing. People forget that in the beginning it was so small in large part because of the fact that the IFC had only $100 million of capital--period. And you don't invest it all in one year even if you can. Now it's a billion and a half, and you have to multiply that by six, seven, or eight in order to see what their impact on investment has been. This is what they have generated from other sources, much of it external sources.

And when it comes to private sector activity, which in the past five years or so has become a key policy in the World Bank, there is obviously room for some dissension, which staff down below fight about--its turf, its lending, or investing. It's adding $100 million in this institution's balance sheet or in that institution's balance sheet. They can't solve it among themselves; it can be solved, if at all, only by the top bosses. And I don't think it will ever be completely solved. Fortunately always until now good sense has prevailed in the end, so it's been toned down from time to time.

WEBB: That's something I hadn't even seen that way. It's an interesting angle to locate for this [history]. Before it was almost irrelevant in the Bank, proportional growth of the IFC and the friction with the Bank--I find it especially interesting. It comes to another of the points that we wanted to raise. It comes to the private sector and government orientation. You have had so much to do with that. To me it's one of the big mysteries of the IFC, not being ever really taken up by people who have wanted to push the Bank more into the private sector, and it always seemed the IFC was an instrument just sitting there.

DIAMOND: Well, you have to modify what you're saying. Every time one writes one sentence or utters one sentence you need at least a page to spell it out. Don't forget the Bank was a very strong advocate of the private sector from day one, an extremely strong advocate of the private sector. This was *[Eugene]* Black's philosophy. It was Garner's theology, and the private sector orientation of development banks and the private sector orientation of industrial lending all started long before IFC in the Bank. And then the Bank gave up its vice president Garner, who was the acme of private sector theology, who became the head of IFC.

But even though the Bank had this very strong theology, its lending was overwhelmingly in the public sector. And this was because predominating at that time in the Bank was the view that the private sector is best helped by creating the public infrastructure that they need. They needed roads to get their farm products to market. Otherwise it would rot, as it did indeed in many places. One of the first loans we made to Turkey was for silos. Why didn't we lend for highways? Because the U.S. government had a tremendous program of lending for highways, and we were going to create storage facilities to assist in this process of getting products to market. One of the first two loans we made to Ethiopia was for highways. Another one was for telecommunications which was important not only for private sector development, but more importantly in Ethiopia for administration, public administration. The government couldn't get word from Addis to Jima. So the infrastructure was transportation. It was irrigation facilities. It was big-scale agriculture of that time, agricultural assistance. It was ports and railways, hydroelectric power. This was what dominated the Bank for a long time, up until the beginning of the '60s. So this was a view of how you promote the private sector.

Today there are different views of the development process. Everybody has more experience with development and the problems, and there's more to an enabling environment than having a highway. But there it was, and the IFC was brought into existence precisely because--by the way, another factor in the World Bank's neglect in terms of direct lending--a loan to the private sector needed a government guarantee under the Bank's Articles of Agreement. First of all, many governments wouldn't give it. India was an exception. They would; they did; they do.

Other governments wouldn't dream of assisting in the direct financing of a project.

KAPUR: Did Korea allow it?

DIAMOND: Yes, but the KDFC was private. That was 1967. That may have been the first private sector loan we made in Korea. The previous ones would have been infrastructural.

KAPUR: No, other than through DFC?

DIAMOND: I don't remember any others.

KAPUR: Like even in industrial lending?

DIAMOND: Yes, it did, in India Iron and Steel, in which consultant George Woods, by the way, was very instrumental. He was one of the key players in that. So in many places the government wouldn't do it, and in even more places the private sector wouldn't accept it because the government guarantee to them implied, in due course if not immediately, government intervention or a perception of intervention. Then came the IFC with no money, or virtually no money, as I pointed out in my article on "A stroll down memory lane." A hundred million dollars is nothing, even with the relatively limited view of what was needed in those days. By the way, when you translate some of those early statistics into today's dollars, the picture isn't quite so bad as it sounds. Twenty million dollars per year in 1962 was a lot more than $20 million today.

KAPUR: And per person? When you make it per person it's a lot more.

DIAMOND: Yes, exactly.

KAPUR: It "doubles" the value of all the numbers. Do you recall why was it that while the World Bank capital--over time, they managed to get a lot more leverage out of the capital by reducing the paid-in portion, so ostensibly $180 billion dollars when actually paid in is approximately, would average out to about five percent, but for IFC everything has to be paid in.

DIAMOND: It's a different kind of company. You'll have to read the proceedings of the creation of IFC to get your answer. IFC is quite different from the Bank. It's an investment company. You can ask, "Why didn't they borrow?"

KAPUR: Right. Or even in this new capital increase.

DIAMOND: When IFC is borrowing, don't forget they're engaged in equity. You don't invest borrowed money. You can re-lend but in the kind of things they do without government guarantee. Remember, every World Bank loan has a government guarantee. It is either to the government so it's a sovereign loan, which very often is far from being as good as a private loan.

But why didn't they borrow? In the old days there was a matter of policy involved also. It was felt that IFC borrowing would complicate the picture for World Bank borrowing. While not legally a subsidiary of the World Bank, it has the same president and the same board of directors and some--in those days--senior staff. Today there is no senior staff except for the president which is in common. Even at the time when under George Woods for the first time they were authorized to borrow from the Bank and the Bank was authorized to lend to it, there was discussion as to whether IFC should borrow independently, borrow on its own, and his strong feeling was that it wouldn't be good for the Bank's picture. But then time marched on. By the way, I wasn't in any way involved, and I don't know anything about the discussion that took place when IFC first borrowed directly. When was that? Ten years ago?

KAPUR: Early '80s, yes.

DIAMOND: Something like that, yeah. I don't know what kind of discussion took place then, but I don't think that an investing institution can get along with having X amount of subscribed capital and then borrowing on the basis of the total amount.

KAPUR: Investment is a fraction of the total outflow.

DIAMOND: It was very confined at times.

KAPUR: Very.

DIAMOND: Speak to the IFC people about that because you will get a richer picture. Well, IFC came into existence. It couldn't do a great deal, but even so, as I've mentioned someplace--you may find it in my interview--there developed in IFC's first two years a strong sense in IFC that the World Bank was competing unfairly with it in lending to financial institutions and to private enterprises because the World Bank was lending in effect subsidized money. World Bank money isn't quite market money, no matter what the Bank says, and it was getting a government guarantee which enabled it to do that. And there are memos from Garner on the record--I have some--to Black in the Bank when Garner was president of IFC saying, "You're undercutting our investing, our lending to the private sector." At that time the IFC could not invest in equities. "You're undermining our lending to the private sector, either directly or through financial institutions because you're able to lend to them at a lower rate, either directly or through financial institutions." There wasn't any direct lending then to financial institutions, and this subject got quite hot between them in '61-'62, and it came to a head towards the end of '61. The debate went on in '60 and '61. It came to a focus at the end of '61 when Black transferred responsibility for all development bank work--and a year later it was done for all private industrial financing--to IFC so that IFC in effect became the center for the Bank Group of private sector investment activity.

[End Tape 1, Side A]
[Begin Tape 1, Side B]

DIAMOND: Then this broke down at the end of the '60s after McNamara became President. So this story you were telling is a story with cycles, if you will, with variations, changes. There is an evolution there with confusion in the end.

KAPUR: At the end I guess you had discussed in the Burke Knapp report of '88 . . .

DIAMOND: I'm going to stop you right there. Please don't call it "The Burke Knapp Report." You must know the history of this.

KAPUR: Okay.

DIAMOND: Burke made a complete mess of it, and it's not his report in any sense at all.

KAPUR: Okay.

DIAMOND: The report that he produced was rejected; it didn't get to the Board, fortunately. It was rejected and his committee, his task force, was dismissed, and two people, Johannes Lind and Douglas Gustafson, were asked as a new team to rewrite the report from scratch. Now ask your question!

KAPUR: One of the things was again this whole thing between IFC and the World Bank.

DIAMOND: Yes, but they tried to avoid that question. It came in towards the end. They couldn't avoid mentioning it, but I think they recommended further examination and so forth.

KAPUR: Right.

DIAMOND: This question about relations, you would do well to ask Gustafson. He goes back to the days I hired him when I was in IFC in 1963 at the beginning, really, of our development bank work. Then he headed the rump of development bank activities in the World Bank after we moved after the reorganization. Then he was on the Golan committee to accommodate IFC and IBRD. Then he and Johannes Linn did this. And he's one of the people in IFC who knows the most about such institutions from long experience and has seen these changes, these variations over time. And Linn–I don't know him very well; I've met him--he's a very able fellow. I don't know how interested he is in this subject. Gustafson will be interested, although at the moment his overwhelming interest is Eastern Europe, obviously. Everything else is of secondary importance to him.

They couldn't avoid the subject entirely. That was a real mess, the preparation of the "Knapp Report."

KAPUR: Why did that happen, given Knapp's reputation?

DIAMOND: Yes, but you can't rely on reputation by never being here. He was an absentee chairman of the task force. This was number one. He rarely came. He would come for two or three days at a time every month or two. That was that. Then there was a . . .

WEBB: What year was this?

DIAMOND: Eighty-eight. I remember saying this to him. He spoke to me twice about the work on the committee, once at the beginning and once at mid-stream, and to others.

And then the staff of his task force, which consisted of high-level people of the staff, had two heads in effect, one from IFC and one from the World Bank. Well, that's fine if you have a strong boss here to control them, but there was no strong boss here, and they went their different ways. Then they, the two bosses, commissioned the studies, *[Anthony A.]* Churchill from the Bank and Jean Philippe Halphen, who is a very able guy, by the way, very able, from IFC. But with few exceptions I know they were advocates of a particular position favoring their turf. I remember I must have seen six or eight of the IFC papers. Only about two of those were good, objective presentations. The one of them I felt was particularly good was by Richard Frank, who is one of their vice presidents now. It was a good, balanced thing, but I could cite one or two that were completely turf dominated.

So there was no boss, a divided thing, a divided staff, advocacy on both sides. And then finally a report which both sides, both some IFC members and some World Bank members of the task force, the seniors, refused to sign. Knapp had approved it. He probably hadn't read the thing! It was a sorry performance.

WEBB: That raises one of the questions that floats there for me because it has to do with the big counter-factual thing about the Bank.

DIAMOND: The big what?

WEBB: Counter-factual.

DIAMOND: I know what you mean.

WEBB: And the IFC in a sense has always been there as a reminder of a different route that could have been taken. My own sense of this is that the Bank could have earlier on, very early on, have decided to go much more into brokering, co-financing, serving as an instrument, and I think it was seen that way at the very beginning. And if it didn't go that way, I guess, I suspect that it's because the people who controlled the Bank have always been very interested in influence, in influencing everything that has to do with policy and demonstration and teaching, leverage, and the route the Bank took really afforded a lot more opportunity for that than IFC would. Does that sound really off track?

DIAMOND: Well, it has elements that are right and elements that I can't say are wrong, but I'm not sure I agree with you.   You said that the Bank was in the early days very much interested in brokering, focusing, and they did, but if the Bank was interested in influence primarily, which means engaging in direct activity, why do you think they were focusing more in the early days on brokering, on getting co-financing? I don't know much about co-financing from first-hand experience. You must remember--I think this is correct--that until about four or five years ago, co-financing was not part of the operations complex and the operations business of the World Bank. It was dealt with separately under finance. It's only--was it with the reorganization of ’67?--that it became a . .

KAPUR: I think you mean '87.

DIAMOND: Yes, '87, excuse me, that it became a part of the vice presidential barony under Qureshi, and it became part of operations. I'm simply trying to excuse my relative ignorance of this subject. I was always in operations, sometimes on the country program side, sometimes on the project side, technical side, but never on the financial side. So you must take a look at not only the speeches but all the statistics of co-financing from the beginning on. Co-financing and joint financing are the two things. Excuse me, I guess A projects and B projects. That's joint financing, isn't it? And that was well on the way before '87, but you must take a look at the statistics on how it developed in order to help you formulate the question better and get somebody more knowledgeable on this than I am.

Secondly, on influence, yes. It's interesting that you should say that the Bank has always been interested in influence because this has a bearing on one of the points I'm going to ask to speak about later on, if you will allow me. It means that the Bank was interested in policy early on, too, from day one. Remember that question that came from the floor supported by two people and there was a burst of applause. I guess that was the occasion for the burst of applause when John Lewis spoke to the 1818 Society. Don't think this policy started with SAL, that the Bank's interest in policy started with SAL. It started from day one. This lay behind the EDI. Eight years before EDI was invented, it lay behind the General Survey Mission Reports. It lay behind a lot of Bank direct technical active assistance activity. I guess it was in the '40s. Wasn't it first in the '40s that the Bank sent people to Ecuador and elsewhere to help establish a basis for and a policy towards the establishment of markets in government securities? Ecuador sticks in my mind; I'm not sure why. So, yes, the Bank has been interested in policy. But I'm suggesting to you that in the financial institutions field and the capital markets they were in that by the beginning of the '70s.

But more importantly, you know, advice, no matter with what an open heart and a good mind it's given, is made far more effective when it's accompanied by money, and there was lots of money here compared with IFC. You don't get much advice accepted when you're dealing with one investment of one and a half million dollars or three million dollars or a half million dollars as IFC was doing in the early days. But if you take a look at the IFC now, it's quite important in the area of advice with respect to privatizations, with respect to all the elements of the enabling environment for the private sector. And this is not only because IFC is on the map, which it wasn't 30 years ago, but also because IFC has more money and more capacity to get money from others than it had then.

KAPUR: It's friendly advice rather than conditionality now?

DIAMOND: Well, ask them or read more of the appraisal reports than I have read because my experience is much narrower today than it was 30 years ago. But you take the setting up of "my" excellent company in Portugal. When I came into the act, IFC had been giving advice for two years. But what was the advice? It was concerned with the legislation which would enable investment banks to operate. No private bank could be established in Portugal at that time, and so it was set up originally as an investment company, but there was no legislation for an investment sociadada business. It was not possible to set one up, so there had to be legislation, and the legislation was faulty in many respects. And this went on for a long time, and there were other elements of government policy, similarly now with respect to privatization and other activities related to the private sector. If you mean by what you say that the conditionality is not a part of the investment agreement, yes, because the investment agreement is always to a company not to the government. But if you mean that they go ahead with the investment without any link to the advice, I don't think that's always true.

WEBB: It's a matter of degree.

DIAMOND: Yeah.

KAPUR: I'm a little bit curious about the seeming contradictions. On the one hand one always hears and believes that influence cannot be effective unless accompanied by money.

DIAMOND: I wouldn't say that. That's not always true. I say that here. I think it's an important element at this political level because when you're talking about influence on the government, you really are talking about politics. It's not just a matter of economics.

KAPUR: And so on the other hand there is also the sense that it was the emphasis on money [that] perhaps really undermined influence in the '70s.

DIAMOND: Say that again?

KAPUR: Perhaps the whole emphasis . . .

WEBB: Loan pushing . . .

KAPUR: So it was that that really undermined it, rather than getting [the Bank] more [influence]. So you get a sense that too little money is ineffective and too much money is also ineffective.

DIAMOND: If you speak to me, I personally have felt that with the tremendous expansion of the Bank during the period when it was dominated by the view that capital transfer was the crucial thing, there was an undermining of the quality of World Bank lending, and, although I hadn't thought about it, maybe also the influence. I say that from only limited personal experience because I left the Bank in '78 after I had my big operation. I'd seen case after case for four years before I got out—three years--where the conditions, including policy conditions and corporate conditions, if you will, project conditions, were not ready but the loan had to go forward because it was scheduled and it was part of the projection of the Bank's capital transfer.

So I used to say that if a project was late or threatened to be late, even for the best reasons in the world, the country didn't suffer; the staff who were responsible for the project suffered because they got it in the neck for not being on time. Well, you know, when you're dealing with such matters as influence and project structure, it's not always easy. It's not a matter of a design, a simple architect's design. But, Devesh, you've suggested a hypothesis. There may be something in what you say. I wouldn't like to defend that if it's on the influence side. I hadn't thought about it.

KAPUR: One hears this frequently about, you know, [how] staff would get it in the neck, but I have had difficulty getting examples. What would happen, what happened to people who said, "This project is not ready and not ready to go through"? I mean, in the end, unless the staff . . .

DIAMOND: They were told to do it? No, the staff didn't have to go along. If you're told to do it, fine. The staff didn't have to agree. They could recognize difficulty. I guess I could mention two countries, including a loan for a development bank. There were things wrong with the borrower bank--here I'm not talking about influence; I'm talking about projects per se--and nobody denied it. But the ruling comes ultimately, not necessarily from the president, who is often personally involved in it but not always, but from the area department or regional vice president or area department director: "You've got to get this out before the end of this fiscal year. It was scheduled for January. Okay, you can have it until February. This is as late as we want the appraisal to be." So you did it.

KAPUR: So then what it means is that people like Burke Knapp and the other regional VPs sort of always went along with it.

DIAMOND: Yes. You know, you say, "always went along with it." I don't know whether they always went along with it. Even when I was in the act, I didn't know everything that was going on by a long shot. I knew what was going on in my region. I knew what was going on before the reorganization in the development and finance institutions area, but in the region I was focused on South Asia.

I couldn't swear to how much resistance, if ever, Gerry *[Gerald M.]* Alter put up or the two regional department heads. But I had a strong perception, and I know that others had the same perception in the areas they were working on. But to say “always” is probably too much.

KAPUR: No, but . . .

DIAMOND: For four years--over four years, I guess it was--we had several missions to Afghanistan while I was head of the development bank department to examine the feasibility of a DFC there. One of them was led by Bulent Yazia of Turkey and another one by Gasem Kheradjon from Iran. Both times the answer was negative. And from my general knowledge of the area, added to their view, I agreed with that. Aand we kept saying "no," until the orders came after one Annual Meeting from McNamara: "We've got to do it," to make a loan for a new development bank in Asia--excuse me, in Afghanistan. And so we proceeded, doing things in a "godfatherly" way and doing one thing at least that had never been done before. Knowing quite well that they would have to get a general manager or president or whatever from outside, I approached my Indian friends, H.T. Parekh and S.S. Mehta in ICICI, for help. They strongly recommended a fellow who was then the head of the Maharashtra Finance Corporation, and I took him on my staff a full year before the time came to put a manager on the Afghan institution. I met this man and talked to him at great length, brought him into my department so that he could learn more about such institutions outside Maharashtra and also so that he could be part of the development process in bringing that company into existence. He later came back to the Bank for a few years, by the way, and now is back in India.

But the orders came from McNamara: "You've got to do this!" I don't know how he got "this." He was a close friend of Bob *[Robert R.]* Nathan. Bob Nathan used to come in and have lunch with him fairly frequently, I understand. Bob is a good friend of mine, too, long before McNamara. But Bob's consulting company had a contract for general economic advice, policy advice, to Afghanistan for about 15 years, and he was strongly pushing the DFC. He used to be on the phone to me, and he had the

U.S. ambassador to Afghanistan, a political scientist from a California university, whom I met once on a visit to Afghanistan after the company was set up. He would come through here, and I would make sure that Bob introduced him at some point. He was strongly in favor. Whether it was these, whether these exercised some influence on McNamara, I don't know. What I do know is that the orders came through: do it.

In Senegal we had missions, and we turned down loans for a new DFC. We turned them down for year after year until an Annual Meeting after I left the Asia Region. Douglas Gustafson got the word from McNamara that we must proceed with the Senegalese institution, and one of Douglas's staff, Jose Luis Monlira (?), left to become its manager. The Bank ultimately made a loan and IFC an equity investment. The thing went broke after about eight years. I don't know how much the investors got back, if anything. I'm not saying we were always right. That just happens to be the case here. What I'm saying is that orders did come occasionally, and then we did it. I can see some kind of orders that I might have gotten that might have led me to resign, such as being told we must make a loan to an Afghani institution or to a Senegalese one. Fortunately, those orders came after my time.

KAPUR: And McNamara was not open to arguments with the professional analysts?

DIAMOND: No. First of all, I didn't have a tremendous number of meetings with him. I have my papers on that, which you also asked for. We talked about professional things. I don't know why in Afghanistan's case. He knew the results of our studies because I had told him, and you'll find Afghanistan in the agenda several times, my agendas with him. He could very well have decided with a completely open mind that Bob Nathan had a much better knowledge and was much more credible about Afghanistan than Bill Diamond. I can't say that he decided the other way as a result of a closed mind. And, by the way, if it comes to general knowledge of Afghanistan, I'm sure he would have been right in saying that the other fellow knew more. No, you can't say "closed mind." I think he probably did on some things, but then we all have closed minds on some subjects, regrettably. [both speaking at once]

WEBB: We couldn't do anything if we didn't.

DIAMOND: I know! Otherwise we'd never make up our minds. You better make sure that sentence is on the record!

WEBB: I always had a strong sense when I was in government, once you were in the job, there was no time anymore. It was too late to think much about it. You had to work on rules of thumb that you had learned along the way.

DIAMOND: Well, yes, but some people, strong people, do leave positions, but it's got to be an issue of overarching significance, not on the investment of two million or three million. It wouldn't have been more than that in Afghanistan, and that's all [not a lot]. No--or Senegal.

WEBB: To round off the conversation, one of the things I haven't gone into very much, I think, is the problems, and just why such severe problems.

DIAMOND: Problems for whom?

WEBB: In the DFCs, in these last ten years.

DIAMOND: You mean problems of the companies themselves? Why did they develop such problems?

WEBB: Yes, these loans and projects which have particularly severe difficulties. Would it be fair to say, do you think, that these institutions were particularly sensitive to the policy environment? Is there something here that has made them more quick to wilt in a bad environment than other kinds of projects? Particularly vulnerable?

DIAMOND: Well, I don't know that they're more so than other types of projects. They have caught the attention, but it would be interesting to study the question--maybe you've done it. Mind you, I don't believe all of OED's figures by a long shot. They measure success and nonsuccess in ways (A) which I haven't quite understood and (B) and which I think are dubious. If I can't understand them, I shouldn't say that they're dubious, but I think they're close to being so. And I think you'll find that there are a lot of other classes of projects which have had great problems sector-wide. I'm told--but you must check this out obviously--I'm told it's true of agricultural credit. It's a somewhat different animal but still credit. I'm told this is true of the Bank's projects which had dealt with migrations of people.

KAPUR: Transmigrations?

DIAMOND: Transmigration. In Indonesia there's a spectacular case. And other classes. What kind of problems the DFCs had is easier to answer than why it should have been more susceptible than others. Incidentally, there have been a few good little papers or good write-ups of this, and some which I think are bad. One of those which I think is pretty well balanced is in the 1989 *World Development Report*.

KAPUR: The one on finance?

DIAMOND: Yes, the finance one. Millard Long, I think, did a pretty respectable job of balance. One of the things I liked about it was that he did say something about the world environment at that time. The world environment of the '70s was not good, and when that's bad, then business is bad in individual countries. And if business is bad in individual countries, the development banks feel it because their clients can't export or sell at home, and then they can't pay their debts, and the DFCs have their problems which led to the Khalid Siraj task force on portfolios.

[Interruption]

DIAMOND: . . the world situation. I said that I thought that Millard’s study of about 1989 had a fairly balanced view of this**.** My problem with most of the other stuff that came out from the World Bank is that they never took this into account and just said it was all the fault of--not the fault of the DFCs but the fault of the World Bank for promoting the "wrong model" of a DFC.

But certainly the world and national environment of the 1970s was not very good for private business, and this affected all development banks, state as well as private. Then another factor in many cases was poor management of the DFCs. And here I think that the Bank has a little bit of--I shouldn't say "responsibility"--but a contributing factor. I have talked about training as one of the "godfatherly" aspects of our relationship with many development banks, and you will find it in some of my talks. I point out that there was an important limitation to our training. We focused on the appraisal and supervision of projects, of their projects. I don't recall that we ever did anything for them or to them with respect to the management of liabilities. It was the management of assets and especially the acquisition of investment assets, and supervising them, that we concentrated on. It was their project cycle in effect, to use World Bank language. The management of liabilities, all the issues that come under that heading, we never touched. And I guess this partly resulted from the ignorance of many of us—I put myself in that category--but partly also it was a reflection of what most of us were doing in the World Bank. Ninety percent of the World Bank staff or more were in operations which meant allocating resources. Only a very small staff were in mobilizing resources. We were all elite.

And we were carrying this over because this was, rightly or wrongly, where we thought their main problems were going to be. And even when the EDI for the first time got into the business of training development bank people formally--I guess their first course was in 1973 when V.V. Bhatt came from India and remained here until he retired and is still living here. It was to a very significant extent focused on--overwhelmingly, I guess, focused on--promoting, designing, evaluating and supervising investment projects. Little on the resource mobilization side or on managing liabilities. The development bank managers who were very good, those who were very good and those who were bad, got whatever knowledge they needed on this side of their operations--and, of course, it was important for all of us—from other sources, chiefly from their own background experience. All of them were deeply involved in management of liabilities but sometimes lacked the knowledge they should have. Views of liability management and capital adequacy are changing everywhere.

KAPUR: Not only in LDCs but also in the U.S.

DIAMOND: I realize that; I said the whole world and Europe. I guess Europe to some extent is taking the lead in this. I said a second and crucial factor was management. I just brought in the question of the kind of training that we provided as being weak from one point of view for management. But there were other aspects of poor management, too. Mobilizing resources is a harder job if you look at most institutions as a whole than is allocating. And many development bank managers found it much easier to get money out of the World Bank and their governments than to go to the market. So long as development banks were--as they were in the '50s, '60s, and early '70s--the fair-haired children of the World Bank and of governments, it was pretty easy. We were easy touches.

I see examples of this from my own experience with them. I often tried to be tough but very often was told I couldn't be because the regional departments said we had to go ahead with a loan. I had already given the NIBID *[National Investment Bank for Industrial Development S.A.]* of Greece notice that they had received the last World

Bank loan. The head of the development bank was an old friend of mine. He had worked in the World Bank and IFC. He stopped talking to me for more than a year, never corresponded. However, after a period of inactivity in Greece, the World Bank decided it had to have a new loan to Greece to signify its turnaround on lending to Greece. Nothing was ready. Nothing was prepared except a development bank loan. We were always prepared for a new loan because of the close touch we kept with them. We were always prepared to say "yes" or "no." I mean, on the basis of continuing contact with a borrower we were up to date with where they stood. And I remember saying to Munir Benjenk, "With your agreement, indeed on your initiative because this institution is ready for graduation, we told them they had had the last loan.” "Never mind. It's the only thing we have. There are no other immediate lending prospects." Benjenk was then the vice president of EMENA *[Europe, Middle East, North Africa]*. So we made NIBID another loan.

KAPUR: This was when: '57,'58?

DIAMOND: No, no. This would have been at the end, late 60s or ‘70-‘71.

KAPUR: Just after the colonels' coup?

DIAMOND: It would have been linked with the colonels' thing. When did they finish? Do you remember? It was a little later than that. It was toward the end of that. Must have been the beginning of the '70s.

KAPUR: I think I've read about this. Somewhere someone alluded--maybe one of the ex-staff members in one of his letters . .

WEBB: To this project?

KAPUR: Well, it didn't say which project. It said how . . . as soon as a dictatorship comes in. This was a reference to the colonels' coup and how we went ahead . . .

DIAMOND: This incident lingers strongly in my memory, first because George was a good friend and it resulted in a break for about a year or a year and a half. Second, I remember the occasion so well because we were having dinner, the two of us, with several others from the Bank and IFC at the home of Harold Linder. Does that name mean anything to you?

WEBB: No.

DIAMOND: Harold Linder had been head of the Ex-Im Bank *[U.S. Export-Import Bank]* for several years, a New York banker. Then when he left Ex-Im, he came into IFC as a representative on the boards of several banks.

In Spain he was on the Board of Bandaco and in NIBID. It was a celebratory dinner at his home on the signing of what we thought would be the last loan. George was there; he had come to sign. I was there. I made the announcement to George: "Delighted, but this is the end for you. You have graduated as an institution; you're pretty good. You can do your own borrowing in the market."

KAPUR: What was the surname?

DIAMOND: Gondicas.

WEBB: I remember now. He was one of the persons that you recommended to me in that conversation that . . . .

DIAMOND: Oh, really? You told me that you had a conversation.

WEBB: Yes, well, that's right.

DIAMOND: It was easy to lend to them, and besides being in the international bank family, that's a possibility of not of free travel but of [end of tape]

[End Tape 1, Side B]
[Begin Tape 2, Side A]

DIAMOND: . . directly poverty-oriented things and safety net and so forth, and they had to compete with others for loans. And the same thing was true of governments. And in the '80s governments were getting to be very much strapped for resources. And so all these factors I think were involved.

I should mention another criticism that appears in the Bank's recent literature on DFCs: a fundamental error in the DFC's design, in the Bank's model for a development bank. Maybe so, maybe not. But the people who say that forget that these things were being invented in the '50s and the '60s, and not only was the world environment changing, but so were the national environments. A model that I used, in accordance with which we helped to promote various institutions in the '50s and '60s, is not a model that I would use today in all countries. I probably would in some, but not in all. Beginning in the early ‘70s you will find speeches and articles I wrote in which I noted the inadequacy of this model in the light of changing circumstances and began to stress the need for strategic planning by DFCs to adapt themselves to the new circumstances. The Bank didn't begin to worry until various development banks became or threatened to become insolvent. Many development banks themselves weren't affected even by that, because they continued to believe they would be bailed out and get more capital from their governments and from the World Bank--and by and large they were correct. The point is that they did not have either the managerial will or the institutional capacity to adapt themselves to changing circumstances both at home and abroad.

There was very little planning in any sense. There was very little strategic planning--I mean looking ahead and changing their policies in accordance with environmental changes and changing their objectives, if need be. I don't mean their fundamental objective of helping to develop the country, but the instrumental objectives of what they would focus on. A few development banks did from the beginning adapt, KDFC eminently so. KDFC changed pretty radically the form of the institution, and invited me to plan this transformation in 1977, ten years after it was established. To give you one impressive statistic, when we helped to set up the KDFC in 1967, exports were around $250 million a year. When I went back for a review of their structure with them in 1977, ten years later, exports had hit $10 billion a year. That's just one figure.

It happens to be spectacular, but everything else was proportional. The city of Seoul was a different world compared to the one I had first gone to in '67. They adapted. Others did. Some did not. Some wanted to but couldn't, inhibited by law, by government policy or by various objective circumstances in the country, other factors.

KAPUR: Which are the ones that you look back on and say actually were success stories? It's a subjective call, of course.

DIAMOND: It is a subjective call, and one has to ask you what you mean by "success" because they may have been developmentally oriented, which would be success for some people, or they may have been profitable, which would be success for other people. For me, it would be a mixture of doing good and doing well. I think Korea falls eminently into that category. Singapore was eminently so, too. ICICI was deeply inhibited by Indian law and custom and practice, deeply inhibited. It was privately owned but government controlled in a way because that was India, but I believe it adapted by going into many new lines of activities and being active in the market, promotions, and so forth and so on. These three stand out.

Thailand, the IFCT *[Industrial Finance Corporation of Thailand]* went through a period of doldrums for a long time, until it got a first-class manager. By the way, IFCT always had a Thai one. I don't think we ever pressed on them a foreigner as manager, although it has had foreign advisors, but also it became quite important, not in quantitative terms but qualitatively in terms of the new things they did and the kinds of activity. IBID was a success in my view, at least until *[George]* Papandreou came to power. And now perhaps I can mention the company IFC helped promote in Portugal, and with which I have been connected from inception: BPI *[Banco Portugues de Investimento SA]*. I would now rank it as the prize among those companies I have known reasonably well. There are others.

Notice I've mentioned three on the Pacific Rim, which makes a point, one point which I've made in various papers. You cannot divorce the relative success or failure of development finance institutions from the relative success or failure of the economic performance of the country itself. We're talking about NICs or near-NICs when we speak of Korea, Singapore and Thailand.

I'm told that the Malaysian Development Bank is now a respected and influential institution, but I don't know enough about it. Certainly it was having all kinds of troubles when I was involved with it. (It did have two foreign managers, by the way.) I would not have put them near the top, but I'm told it is now getting along extremely well.

Most of these institutions, like institutions in developed countries, have their ups and downs. I've mentioned a few; I haven't mentioned all. The Turkish Development Bank we thought was very good in its first ten years. It turned very bad, and when I was ultimately sent back in '82 (by the Bank) it was only because, while the Bank was appraising a new loan--appraising a new loan which it insisted on sending to the Board--it discovered that the company was virtually insolvent. The Bank went ahead and made the loan, and I was asked to see what I could do about assisting or at least reorienting while the Bank itself proceeded (A) with the loan and (B) in helping to persuade the government to provide the resources needed to buy TSKB's way out of its problems. That's an example of the cycle DFCs--and other institutions--go through. This is not a definitive answer to your question, but some examples.

KAPUR: The African ones, almost all . . . .

DIAMOND: Yes, although I had mixed feelings about the Moroccan one. For a while it got along extremely well. Then it virtually went to pot. I went back three times in the early '80s for reassessment and advice. I'm told that it has since revived.

Why did it go to pot, why? Chiefly because it took foreign exchange risks which (by contract) were supposed to be taken by the government. The government did take them in the sense of signing a contract, but it didn't pay up. Secondly, it borrowed short and lent long! And when things began to go bad in the world in the '70s and the early '80s, both of these things which management had done--why? in an effort to grow, grow, grow—the chickens came home to roost. I strongly recommended against new loans by the World Bank, and the World Bank held off for several years until it felt that they had corrected their situation adequately. But then much to my astonishment and despite two long, bitter memoranda that I wrote to the people in charge, the IFC did make two loans in a row. I know the IFC people who were involved; their concern was that here was an opportunity. There are ups and downs.

I've lost track of my Latin American friends. There's only one that I feel because of a recent revival of knowledge I think has been doing quite well, and it has gone through some rapid and significant transformations, in Colombia. If I had been asked at the time I left development bank work if there was one financiera in Colombia on which I would place my money--we were invested in five at that time; ultimately the World Bank lent to about ten of them--I would have chosen two. I would have put at the top of the heap Corporaciòn Financiera del Valle in Cali and the Corporaciòn Financiera Nacional in Medellin. Del Valle had an absolutely first-class manager who retired there a few years ago after a long time on the job and was replaced by another first-class fellow. I have renewed contacts with them recently, and they seemed to be doing very well in terms of diversification of their activities and adaptation to a new world and a new financial sector. Medellin's Nacional, I just don't know. I was quite surprised to discover lately that the one that was the biggest and most powerful but in my opinion not the best of the financieras, Colombiana in Bogotà, had declined, and both del Valle and Nacional are now bigger and much sounder in condition, especially del Valle.

WEBB: I guess there would be the exceptions. Again, the environment has to have helped a lot. It's the only country that didn't have a debt crisis or changes of . . .

DIAMOND: But I don't know. Except for the changes at the top, I don't know enough about the individual companies to know why Bogotà sank and del Valle's star shot upward and has continued to do so. Mind you, Cali and its region were in my time a very productive and dynamic community, the heart of the sugar country, and many other things. On the other hand, Bogota was a huge metropolis, industrial center, administrative heart of the country. Although in those days, if you asked a fellow where he came from, "Do you come from Colombia?" He would say, "No, I'm from Medellin."

WEBB: Very regional.

DIAMOND: Very! I don't know whether that's still true. I guess to some extent it's still true, but they must have outgrown that to some extent. They had to.

KAPUR: One aspect of the DFC history that strikes me is that I have the impression that there's no other area of lending in the Bank that for so long a time was so much of a one-man show, where one person had so much input. Is that right? Do you think it's fair?

DIAMOND: Well, you must be talking about me. Well, first of all, I had a lot of good people on the staff. Gustafson was very, very good--and still is. He's really a top fellow in every way, personally and professionally. And there were others. I mention him because I've mentioned him several times already, and he's worth your seeing. But I'd like to think that I helped to give it some direction and leadership and some sense of esprit de corps.

Certainly one of the factors involved in my being able to do that was the role which IFC was given for the World Bank group from '62--that's when the department was created--from '62 to '68. IFC had the role of promoting the private sector, number one. Number two, it wanted development banks to be an instrument through which it would spread its influence in other countries. It knew it couldn't know everything that goes on in other countries, but through good corporate partners like good development banks they hoped to be informed of what's going on, they would be informed of opportunities. IFC would be part of a network. Did I mention this is my big interview of 1986?

KAPUR: Yes.

DIAMOND: And then the third thing is Marty Rosen, who rubbed many people the wrong way and probably me, too, occasionally) because he could be very tough and abrupt, was a terrific teacher. But aside from being a teacher, he and Woods allowed me to move. So I was able to develop that influence which carried over into the World Bank for my next four years, from '68 to '72. It carried over there but necessarily dwindled as the Bank changed and more emphasis was placed on the regions and the regional departments rather than on the technical or project departments. I considered mine in that category. And I never had the standing, nor did the department, with McNamara that I had with Rosen and with Woods. So this was far from being a one-man show. It would be nice to think that I helped to wave the flag at the right moment, both vis-a-vis the department and vis-a-vis the outside world. And maybe a lot of these "godfatherly" activities vis-a-vis the outside world helped in this respect, too. But I'm trying to think who would have been in a comparable position in the other departments. Sorry, I just can't think of any at the moment. What was your question? Was it true that this was a one-man show?

KAPUR: Do you think that was a fair assessment?

DIAMOND: Well, you heard what I just said. It wasn't a one-man show.

KAPUR: No, I mean . . .

DIAMOND: I'd hate to think that I was!

KAPUR: It's more a certain identification of DFCs and your name. No other name really springs out for, say, the power sector or irrigation or highways or roads.

DIAMOND: Yes, I will accept that a little more quickly than I will accept the "one-man show" description. Maybe it was because, too, we wrote a lot about it. Well, I shouldn't say that because there was lots of writing about power. I wrote one book and edited and wrote the introduction to another in this period. There were lots of talks and articles in various journals in that period. Maybe that helped to link it to me. Of course, I am prepared to accept paternity for all the successful development banks, but not the others! At least I can find good excuses for their being.

But I really can't accept the view that the design was entirely wrong. After all, we're talking about something invented for the world of the '50s, and it was consistent with the prevailing philosophy. It wasn't entirely my invention. I had some role in the invention maybe, certainly in the propagation, but today it's not something that I would be going around selling everywhere. I would in some countries that I can think of, in central Africa or elsewhere where you can't talk about the market or mobilizing many resources, but I'm not sure you could argue that it was inappropriate in all the countries in which it was used in the '50s and above all in the '60s, which is when the big push took place, a big push in the sense of the number promoted.

By the way, one of the annexes is the numbers promoted from the beginning of the World Bank to the late '60s.

KAPUR: Yes, that one also has these numbers.

DIAMOND: Which one?

KAPUR: The policy paper.

DIAMOND: Could be. I don't know.

KAPUR: It has them in the annexes.

DIAMOND: Well, yes. I didn't write that one. I guess I saw that in draft. Gustafson, apparently. I guess I would sort of like to. It's probably correct. Gustafson is very careful. Yes.

WEBB: Well, I don't know about trying to go on. How do you feel?

DIAMOND: I can go on for awhile, but I want to show you some papers, and I have some suggestions that I want to make to you, unconnected with that.

KAPUR: Okay, sure.

DIAMOND: Shall I do those?

KAPUR: Sure.

DIAMOND: Well, I made notes about these right after the—in fact, I made notes in my little pocket diary as John *[Lewis]* was talking and as people were asking questions, just points that I wanted to stress--some of which we've already stressed--but let me just mention them.

I was delighted, as you know, to hear him say in his second tentative conclusion--I keep telling people that they should not think of John's points as conclusions but as hypotheses for the moment, tentatively, but I'm sure he'll stick with this. I remember his first one was that he was not going to be rewriting Mason/Asher; he would be reviewing it in the light of new facts and new evidence and so forth. But a second one says its time for a reassessment of George Woods, and it should be. He did much more than he was given credit for. You know that that's my view because I've said it before in various ways.

Secondly, I guess it was Dick *[Richard H.]* Demuth who raised three questions. When John gave his outline, Dick said, "But you haven't mentioned A, B, and C." I've forgotten what one of them was, but one had to do with IFC, and this really worries me. For gosh sakes don't forget IFC. It's an extremely important institution, and there are many problems connected with it as well as potentials connected with it, problems in terms of links with the Bank, coordination, and what not. You referred to the possibility of merging them, but that's one of the things often talked about by some people, denied or refuted by others, but it's extremely important. It's not obvious to me from John's outline how, where, the IFC fits into that outline. I realize that, in the titles of the 10, 11, or 12 chapters he mentioned--I'm speaking of volume l, not volume 2--it's obvious that in the titles of the chapters he couldn't mention every subject that you'll be dealing with. But every important subject should be able to fit into one of the chapters so you have a place in a chapter, even if you don't have a chapter on the subject itself.

In the Mason/Asher book, you remember, there was no chapter on IFC but it had a big part in several chapters. The first one that it had a big part in was chapter 3 or 4 or 5 called "The World Bank and the Private Sector," and it was natural to fit IFC into that. And then it came up in various places after, including that big last one on the issues for the future.

It's not obvious to me where IFC fits in your scheme. Maybe you have a place for it; maybe you need a special segment on it. But IFC is sufficiently important now to justify very close attention both for good and for ill. So I agree entirely with Dick Demuth in raising that issue, and I wanted to stress that to you.

Another thing that he said that was not obvious from John's outline was where the subject of debt would be treated. Now, I know debt is on your mind. I think John mentioned that someplace along in his talk. But I just wanted to make a point.

[Interruption]

There were the three volumes by *[Dragoslav]* Avramovic, which were pioneers in dealing with the debt problem of LDCs. I had lunch with Dragoslav last week or the week before, and I asked him, "How did they get into this that long ago?"

He said, "Don't you remember"--I didn't, although I could have imagined it--"that Garner became extremely concerned in the middle '50s about the creditworthiness of many of the big borrowers?" And so he specifically asked that the economics people--and Dragoslav was one of the senior ones--make a study of debt and its implications. So Garner was the promoter of that study. It's worthwhile looking them over. I don't mean that you have to deal with them, but they deserve a reference. They are mentioned.

By the way, I checked to see if there were references to this in the Asher book. There are; they're in the footnotes. But they're a little more important now than they were even when Mason and Asher were doing their history because the debt increased later and the Bank was deeply concerned and involved in the period you will focus on.

Dragoslav said something else at our lunch. This I can't affirm now because I have forgotten much about the contents of the book. Dragoslav never forgets something that he writes; I sometimes forget something I read. He made a very strong case for the need for debt relief and for soft lending--soft in the sense of low-cost lending. I know I have at least one of those volumes someplace at home; I didn't go back to look it up. If it's true, then this may be one of the early factors in the origins of IDA.

KAPUR: Oh, absolutely. In fact, it was precisely the danger that they were seeing in the case of India and Pakistan--the large borrowers--of creditworthiness. At least that when IDA was, which was not favored but they realized they had to do it--in '67 or '68, the Bank initiated what really was an excellent thing, I think, and this is why I say it's more ironical—is this debt reporting system. They began to set it up country by country, really standardize things through debt-holder data. What strikes me is that they set up this system, worked with it, and the World Bank debt tables which you now see, the sort of standard source for all data, started in '68, '69. What is surprising to me is--I mean, that's the good part. The questionable part is that what--despite having all this data (the debt crisis still caught them unawares) . . .

[End Tape 2, Side A]
[End of Interview]