WORLD BANK HISTORY PROJECT
Brookings Institution

Transcript of interview with

ALEXANDER SHAKOW

Date: May 9, 1991, and February 7, 1992
Washington, D.C.

By: Richard Webb, 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.
WEBB: . . talking about external views, you were some ten years with AID [U.S. Agency for International Development].

SHAKOW: Fourteen at AID, yes.

WEBB: Fourteen. And you were just a few blocks away, looking at the World Bank all that time. And there are a lot of questions about the role of the Bank. One of the specific points we keep coming up with is that the Bank has never wanted to go heavily into regional offices. That’s changing, but most of the time, whereas AID was heavily, and some other differences in style. I just wondered how you perceived back then from AID that has really maybe changed now that you're here.

SHAKOW: When you're on the outside you think you know quite a lot about the Bank, and when I was in AID one of my jobs was to be director for Indonesia, and Indonesia was, of course, a country where the Bank and the [International Monetary] Fund and AID worked very closely together so that I early on began to get a flavor of work with the Bank from the moment I arrived in AID. That was the time that Bernie [Bernard R.] Bell was in Indonesia, and everybody worked very closely together, these three parties.

WEBB: Were you resident in Indonesia?

SHAKOW: No, I was the Washington end of the Indonesia program, so that we had Stokes Tolbert was out in Indonesia and other people, but it was just a very close relationship on that subject. And so I had a very good feel for the way in which the Bank worked on Indonesia, and I always identified the resident mission approach and the Bernie Bell role in Indonesia as being exemplary and terrific as far as AID was concerned and other donors were concerned and always thought of that as being an excellent model. And then I came to the Bank and discovered that everybody in the Bank hated that idea because that kind of direct link between Bernie Bell and [Robert S.] McNamara and then the kind of system that evolved after that time is one that people inside the Bank thought was just the wrong way to go because of the great degree of delegation of authority and the problems for people in the bureaucracy at this end. But I use that simply to illustrate that I did have pretty close contact with at least a certain aspect of the Bank and Bank operations. Then when I was in charge of policy for AID that put me in contact with other people throughout the Bank. So I thought I had a pretty good knowledge of how

---

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

Alexander Shakow
May 9, 1991, and February 7, 1992 - Verbatim
the Bank worked, but when you then come into the Bank--and I came in working for Mahbub ul-Haq in that policy department of his, and so I had a good overview of the Bank. I was not caught immediately in a task that was narrow and country specific, so I had a wonderful opportunity to see the Bank broadly, and I just began to realize that the Bank is so much more complicated, so much more--there's something going on on every subject in the Bank at all times and that it's very hard to get a handle on what this Bank is.

That's why writing a history of the Bank is so enormously difficult because everybody will see it from their own angle. As I say, all my jobs here have given me an overview which is quite--I feel very lucky to have had that. I don't have the same depth of knowledge of the operational side of things as a result because I wasn't working on a specific country, but the sense of the Bank as an entity and as many, many fingers going in so many different directions all at the same time was something that you never really got a sense of until you got inside it. From the outside that's a little hard to see. It's hard to understand it from the outside. I thought I did. I came in and I realized that I didn't.

But one of the first things I did when I came in, in fact, was to go around and see a lot of the senior people that I knew before and talk with them about certain kinds of contrasts that I saw with AID. And one of those I was specifically interested in, because aid coordination was an issue, was the role of resident missions. And my perception then and my perception now are not different. My--just as you implied from the way the question was asked, I thought one of AID's great virtues was that it did have resident missions that had a fair amount of responsibility and that we were back in my day moving toward giving them more responsibility. Then to walk into the Bank and find that this Indonesia model I had so revered was anathema to people and that basically we had a few post offices in a few countries--we had, what, at that time 89 staff overseas or something like that, headquarters staff—it's just that the numbers were very small. And I couldn't understand how a Bank trying to deal with some of the problems we were dealing with, including the major policy issues that were coming up as part of adjustment lending, could possibly be dealt with by people just flying in and flying out.

So I went around and specifically raised that kind of question with people, and I remember vividly getting answers from people who are still in vice-presidential positions that it really wasn't appropriate to do it. First of all, if you put people into these countries, they will then in effect “go native,” they will lose their objectivity; that they will become a crutch for the government and the government then won't take the responsibility itself; that it's more expensive; that people don't want to go and live abroad, and they'd rather live in Washington and not be discombobulated; that you've got a Board [of Executive Directors] and that changes in that you can't delegate authority to the field because the Board relationship is different. But a whole series of reasons why it didn't make sense to do it, even though my own experience was that if you really wanted to make effective many of the things that you did, you needed to have people who were able to get a good understanding of what the government people really were going through, and that you needed to find a way to become their partners but not necessarily become their crutch and that that was something that sensible people could do. But it was not my experience that in AID by having people in the field that they became a crutch for the government.
I then used my example of Indonesia. In 1960 in Indonesia there was a 25 million dollar AID program and there were 300 Americans there because they were in every single sector, every field, technical assistance and so on, but 25 million dollars, 300 people. In 1970, in this very new situation, it had a 300 million dollar program and 25 people, so I thought it was a wonderful reversal. And the difference, of course, was that AID became very selective. It was basically supporting balance of payments assistance that would go into a few key areas where priorities were high and technical assistance.

Well, I didn't mean to get so long-winded about that, but I think that my vision of what the Bank should have done then was that we should have become more attentive to the field issues, and you could do that without becoming a crutch, without it becoming all that more expensive, without it becoming a problem with the Board. This also related to my interest, as I said, in aid coordination because my concern was that if people were worried about the cost, that in fact given the role that the Bank had as the coordinator of donor activities, that suppose you did put one or two people more in the field or three or four more people, that you weren't talking just about the size of the Bank's lending program. You were really talking about how the government's own resources were used and all the donor resources, and if you'd any impact whatsoever on improving the effectiveness of the use of those resources, having even three or four people there in many of these large programs would be very cost effective.

Anyway, I have made no headway with people. A little bit later on Kim [Edward V. K.] Jaycox—during the time of the “Future Role of the Bank,” Kim Jaycox was put in charge of doing a paper on aid coordination, which I was . .

WEBB: Was that about '88?

SHAKOW: '84. So I wrote the paper for Kim on aid coordination, and Kim himself by that time was in Africa, I think, in East Africa [inaudible] but in any case he was convinced that more needed to be done in the field because he was seeing the problems.

And in Africa, in fact, there was a major effort to expand, and they did introduce more resident missions and increased the size of them a little bit, but it still—I mean the numbers are still incredible. It's still—I was looking just the other day. It’s something like 157 headquarters staff in all of our resident missions all over the world, which means you’ve got 6,000 here and 157 there, which I still think is sort of . . .

But anyway, if you want the perception from AID was that this was a place that had tremendous resources, that could do a lot of things very competently technically, but often was more focused on just getting the loans made than in making sure that they were implemented effectively and that part of that was also a lack of closeness to what was actually going on on the ground, with a few exceptions.

WEBB: When we asked McNamara why he hadn’t created more resident missions—he himself was so glowing about the Indonesian experience—his answer was rather curious.

Alexander Shakow

May 9, 1991, and February 7, 1992 - Verbatim
He said, well, you needed to have a very, very high quality person running them, which was the case with Bell, and what an effective thing—they just hadn't gotten around to finding people at that level.

**SHAKOW:** Well, I think the answer is also that that was a peculiar juxtaposition of events. I mean, here you had a turnaround in a country that was very dramatic. The kinds of people who were there on the Indonesian side were very open, susceptible to working with this kind of very open and encouraging—I mean, for example, you never once saw the Indonesians saying to their public, "We must undertake this program because the IMF tells us to do it." It was always the Indonesians’ program, even if the IMF and the Bank were very deeply involved in it. And there was just a whole attitude there that made it an environment where this kind of thing could work. So you combine that with the fact that there were people who were very enthusiastic about Indonesia, and I've forgotten now—and Bernie had told me, and I'm sure if you talked to Bernie he would tell you, how it all happened—but I'm also sure that inside the Bank bureaucracy there was nobody encouraging him to build up any more Indonesias, so that he would have been fighting against the bureaucracy. So that you can certainly say that Bernie Bell is not the only person in the world who could lead a mission like that, but it was very peculiar.

And also, I suppose, there's a limit to the number of people you can have reporting to the president. I mean, that aspect of it is not tenable, I think. You couldn't do that more than one or two times, but you could have a lot more capacity and authority in the field, and they did have for a while, but it's now down—I mean, in the Indonesia case, I guess, it's now down to the point where the resident director reports to the country director and not even to the vice-president anymore. And maybe that's the way it should be, but I don't see why you couldn't have missions of that size all over the place.

**KAPUR:** He did decide in the case of China about wanting [inaudible] but then essentially when you asked him that, he said, “I don't know.”

**WEBB:** Yeah.

**SHAKOW:** I don’t think that there was a . .

**WEBB:** It's disconcerting sometimes, his “I don’t know.”

**SHAKOW:** Yeah. I don't think that there was any inclination to move that way in the Bank.

**WEBB:** Yeah. There was no internal pressure whatsoever.

**SHAKOW:** Just the opposite. I mean, everybody else was—I talked to a lot of people then, you know, people like [Willi W. A.] Wapenhans and others who I had a lot of respect for. When it came to this question: absolutely no interest.

---

Alexander Shakow  
May 9, 1991, and February 7, 1992 - Verbatim
WEBB: If the Bank has always talked and debated about the extent to which it’s pushing money, the extent to which it’s trying to improve the quality of development efforts, [inaudible] through leverage, but this particular administrative decision regarding the resident model I guess reflects to some extent the real priorities. It’s much more of an emphasis on making the loans, transferring funds, rather than influencing. Is that a correct interpretation? Or does it have nothing to do with it?

SHAKOW: Well, certainly, if you look at the difficulties that people coming back from resident missions have had finding spots back in the bureaucracy here and the--for a long time--the lack of willingness on the part of senior or any other really good people to go to these missions, it does suggest that people were reading the situation as being one where staying here in Washington was more likely to be helpful to your career than going abroad. Now, there have been public statements in the last couple of years which are designed to encourage people to go to the resident missions, although my impression is still that there is not a lot of evidence that is necessarily very helpful to your career. So whether it is a sign that the incentive systems here work to reward the people who meet the lending targets and produce the loans and much less attention is given to making sure that the loans work, you can probably read something of that into the--I'm sure it's not conscious, in the sense that nobody would tell you that's what they set out to do, but the way the incentive system got put together and the way in which people get rewarded does seem to lead in that direction.

Now, again, I've never been in operations but certainly you’ve talked to enough people, you see that even when they try to have the pressure reduced, they still seem to have--the measures are still very much related to lending. So maybe that is part of it, but nobody would ever say that. They would have many more reasons why it just didn't make sense to put a lot more attention in the field. Now recently, in the last couple or three years, there has been more attention paid to supervision as more and more results tend to come back and show that there are real problems, problems which are not unique to the Bank, and I'm not saying that AID solved those problems easily, but certainly if you're in the field and able to help make course corrections, it's a little easier if you're right there all the time and have developed a good working relationship than it is if you come in for ten days a year.

But there’s a very strong feeling that ran through at least all the people I have talked to that the Bank has got to be--we're a bank, not technical assistance agency, and we have to stand distant from these governments and make them swim on their own. And there can be a strong sense of that running through, which in many respects could even seem to be inconsistent with the kind of world that they were living in, but a worthy objective and I don't fault them for that. I think that they really sincerely believed that that was the way you got more accomplished.

WEBB: And this stance is quite different from AID, do you think, or . . .

SHAKOW: Yes, because I think that in AID people felt--some of them more than others--that, yes, you needed to build up capacity, and AID certainly put a lot of

Alexander Shakow
May 9, 1991, and February 7, 1992 - Verbatim
resources into training people and that was a major element of AID’s program, but that they were not as likely to say that they thought that these governments could stand on their own feet quite as quickly, even though certainly the view of most people would be that our job is really to put ourselves out of a job. Now, some of them probably didn't have that altruistic a motive and wanted to keep their own jobs and therefore became more paternalistic and did things that they shouldn't do. And I think that example of Indonesia in 1960 is illustrative of that, at least in the sense that in every possible field we could do things that could be helpful, but I think that changed over time. And certainly as more and more people came back better trained (often than some of the AID staff were) that helped to change perceptions. But I guess that AID, because it was a technical assistance agency and it did have resident staff, did not feel the same sense of distance from government in the sense that the Bank did. I may be misrepresenting all this, but my own reaction would be that they wouldn't have. Otherwise they would have said we shouldn't have resident people.

WEBB: In Indonesia was there some rivalry, some sense of rivalry?

SHAKOW: Between the Bank and AID? Occasionally I think it grew up because the Bank had kind of first look at all the sector stuff. And I think at a time when there was a shortage of--there was a lot of money chasing a relatively small number of projects or good projects, that the--I remember occasionally some of the AID people being a little resentful that even though there were areas that we were looking at, in power or something of that sort, that the Bank staff, because they were also looking for projects--in addition, because the Bank staff had this dual role: they were both lenders looking for something to lend for, but they were also the coordinators so that they would meet with their Indonesian counterparts, sector reviews and all that sort of thing. Occasionally there was some thought that, how the Bank getting to do all the good projects. It wasn't a serious thing, I don't think, in the sense that it was a major issue, but there was a little bit of it there. Otherwise, I think that AID realized that all the donors, and AID in particular, were riding very heavily on the coattails of Bernie and others had, and that that was to everybody's advantage. We couldn't have run an AID program with 25 people if there hadn't been a World Bank and a Harvard International Advisory Service. So I think people were very well aware of the fact that the Bank was an enormous asset to everybody.

WEBB: Any of these--did you would have an involvement with another country, or did you then go to policy . . .

SHAKOW: I had involvement but it was minor, because I was responsible for Singapore and Malaysia and one or two others, but I then went to work on policy for Asia, so I didn't take any specific country case thereafter, although I had Asia in general and then moved on to the Bank. It was AID-wide responsibility.

WEBB: Something that's hard for us to get a sense of is what the U.S. government wants from the Bank.
SHAKOW: Now or then?

WEBB: Or has over the last 20 years. It certainly is jealous about not surrendering its power over having the presidency and a near veto. In part it--we asked Mr. [Barber B.] Conable yesterday . .

SHAKOW: That was a bad day to ask him that question.

WEBB: Really?

SHAKOW: Well, you see, he's particularly unhappy about the United States at this point.

WEBB: He mentioned some difficult [inaudible]

KAPUR: [inaudible] the IFC.

SHAKOW: Well, that's a very hard question to answer because it's--I mean, that's a history unto itself, but--and now is a particularly, more irritation now, but if you go back to--I'm trying to figure out what's the simplest way to describe my own knowledge of this.

First of all, the U.S. government is not a monolithic entity, just like a lot of other governments, and so what the Treasury Department at any period of time may have wanted and what AID may have wanted and what the State Department wanted and the U.S. government as a whole wanted varied quite a bit.

And I remember I was assistant administrator for policy at AID at the time of the [Jimmy] Carter Administration. And at that point Henry Owen, who was, had before been in the State Department Policy Planning, was during the Carter Administration a key aide to President Carter, was very active in aid-related development, aid-related matters. He’d had a long history of interest in India and Latin America as well. But his view was that the Bank was essentially a tremendous pool from which to draw support for things he wanted to do or that he thought the U.S. should do, so that I was amazed to discover on occasion that World Bank staff were brought into meetings at the National Security Council and elsewhere on projects that Henry Owen and others were supporting, whether it was--because during the Carter Administration you had various initiatives in trying to increase aid to agricultural research or doing more for Indonesia in certain areas—I mean, I'm trying to think of what they were. But I remember Monty [Montague] Yudelman, who was then head of agriculture, seemed to be appearing quite frequently in U.S. government meetings about issues that were, you know, coming up at summits. Henry Owen was also the sherpa, I think, for the summit which took place at that time or was one of those people that was. I don't remember all the details, but basically the Bank was constantly on call, and I'm sure that McNamara was very close to Henry Owen and was happy to be of help in whatever way we could. I don't know whether there were ever conflicts of interest or other issues that arose in the sense of

Alexander Shakow
May 9, 1991, and February 7, 1992 - Verbatim
political things, but certainly the U.S. government at the time, as reflected in the views of the presidency, were that the World Bank is a great resource, we'll use it and bring it in, and it may help us a lot, and we need their help, and so on and so forth.

Clearly, during McNamara's period there were times when things were fairly tense because they didn't like the fact that McNamara was, wanted to do something in Vietnam or whatever, and I don't know that history very well. But from the U.S. side it seems to me that as the Bank was growing, it was an important partner of the AID program in many places. AID was still quite large itself in many countries and was in fact dominant in some places where the Bank was just quite small. Then the Bank began to grow, and AID began to shrink a little bit, so I think that there was a little bit of sensing that, okay, between the Bank and AID, we want to get out of it as much as we can to complement what we're doing. And as AID began to move towards more support for basic human needs and in some of the human resource areas and so on, the Bank was then left to do a lot of the infrastructure which AID had used to do but wasn't able to do very much of. After about the mid-1970s AID just didn't have the resources or the size program to do large infrastructure, and that was very much left to others. And the World Bank had a very big role.

But that's not answering your question very much. I just think that when you had in place most of the administrations during the 1970s and '60s, they saw the Bank as a tremendous resource. They supported the Bank. They thought it was worthwhile to support it. They would fight for it on the Hill. IDA [International Development Association] was very important for the poorer countries, and that they basically saw it as a development institution which could do a lot of good things, and when budget debates would arise, we would try to find whatever arguments there were to find support for the World Bank and to the extent you could make a case that you have these 21 countries that are high-security impact countries for U.S. foreign policy, in fact, if you look at the distribution of lending by the World Bank, it more or less (with a few exceptions) was going to those countries. I mean, arguments were made all the time about the usefulness of multilateral assistance and the World Bank in particular, and that was during my period at AID and elsewhere. I mean, you got ultimately into conflicts over how much money could you allocate bilaterally and how much multilaterally, but the basic position was we need both bilateral and multilateral aid. Multilateral aid tended to be viewed as much more efficient than bilateral aid, partly because it was run apolitically but partly also that people had very high respect at least for the World Bank.

What happened was a great wrenching change during the 1980s, because you had the [Ronald W.] Reagan-[Donald T.] Regan Presidency and Treasury, and immediately the first thing they wanted to do was to cut back sharply on budget for foreign aid. They just didn't want to support that, and a very large component of the budget was IDA. I mean, if you look at the way in which various subunits of the budget are put together, there is one big line item for IDA which was—in its authorization, which is a three-year period, you might have had, say, in those days, what was it, two and a half billion dollars. Well, when you start looking at component parts of the AID program, it doesn't look as large as that, and even in a single year 750 million dollars or something like that for IDA looms...
very large, and it was one of those things that looked easy to cut. And so I was still in the administration at the time that they prepared the budget for 1981, and the OMB [U.S. Office of Management and Budget], at that point under--what's his name?

WEBB: [David] Stockman.

SHAKOW: Stockman sent down word, I mean, "Cut it all in half." And bilateral aid was cut too, but multilateral aid was cut.

And then you also had the attitude over at Treasury that McNamara was hopeless and a Kennedy and so on and so forth and a big spender, and even when Tom [Alden W.] Clausen came in that there was no willingness to support the Bank and very little interest in multilateral development. It was seen as a waste--all those things. And it was only because you had some people, say, at AID where you had an administrator who was reasonably constructive in the area, had been a Peace Corps volunteer himself, and you had a person who was really quite open with working closely with the Bank at the operational level. But you certainly weren't going to have any Bank people called in to National Security Council meetings or National Security Council staff work on these issues. You weren't going to have the Bank become a partner in preparations for summit meetings.

There was just a lot of animosity because the people who came in and were running the place were people who came out of the most conservative think tanks in town and had been part of the--basically of the [Jesse] Helms kind of view, the Senator Helms kind of view of AID and multilateral aid in particular. So the U.S. view shifted radically at that time with the change of administration, not at all like what one saw when the Republicans were in during the [Gerald R.] Ford administration, Henry Kissinger--those were all the sort of establishment people, but the establishment was broken in the 1981 period. And so for four or five years, those first years here were, when I first came, were very tough, very little support in Treasury. Congress was not great, and you found that you were falling behind in arrears for IDA and a lot of funding problems.

It changed a little bit when [James A. III] Baker came to the Treasury, and there was more attempt to putting this on a more regular basis, but always I think a lack of real appreciation for what multilateralism is all about. There was very little appreciation for multilateralism. And for multilateral banks, basically it was seen as a pain in the neck with a lot of costs associated with it, and they didn't control it.

Then they gradually started trying to figure out ways to get greater control, and it seemed to me it started more at the Asian Development Bank than at the Inter-American Development Bank where they really tried to put the squeeze on. I was just thinking now, remembering that the Asian Development Bank had an American executive director who pushed very hard on the private sector three or four years ago. Well, now we're in a scene here in the World Bank where that is a very big issue. The U.S. is just using all the clout it can manage to pull together to try to push the Bank down a very specific path, specific towards the prospect but unclear as to what it is that they want us to really do--so
specific, though, that they aren't willing to support a capital increase for the IFC at the moment.

And so they now realize, I think--so they moved from a period of hating the multilateral banks and thinking the best thing to do was to destroy them, to a period of relative calm and collaboration during the mid-1980s, to a position now in the last year or two--but especially when the characters in the Treasury, realizing that the bilateral programs are not all that big or effective or doing too much but that in the World Bank you have the clout of all these resources and the policy lending and the policy dialogue and so on, that the Bank is a place which can, if it is properly directed, have some real influence over others in the world. And the success, as they see it, of the Reagan Revolution all over the world is something that they think the Bank ought to be capitalizing on, and they are never content that we are moving fast enough in this direction.

So what does the U.S. want out of the Bank today? Today the U.S. wants to use--it doesn't have a lot of money, but it wants to use its influence to change the policies of the Bank in the direction it favors. And it doesn't believe very much in multilateralism, so the idea of just getting some consensus built up by the power of persuasion is not as strong as just trying to hammer home a few points. But that I think is quite different than what it was certainly ten, eleven, twelve years ago and even different from what it was at the beginning of the 1980s.

WEBB: They also are beginning to use the Bank more as an instrument of debt settlements under the [Nicholas F.] Brady Initiative?

SHAKOW: Well, there are these--well, yes. That's another feature that goes back quite awhile, but certainly for this decade is that the U.S. doesn't have any money. It has lots of ideas how to use other people's money, and the objective is now to influence as much as you can the policy while not having to put up very much money themselves. And certainly in this case one of the things they are trying to do was--they don't have the money on the debt financing, and the use of World Bank money is cheap for them. It doesn't cost them anything to do that, and IMF, too. So, sure, they want to use it practically both ways.

WEBB: This brings me to another area. More and more it seems that the Bank is being pushed into the role of a broker or deal-making. Conable was talking about two or three hundred trust funds now.

SHAKOW: Seven hundred.

WEBB: Seven hundred? He's behind in his figures.

KAPUR: Yeah, his figure was 320.
SHAKOW: It may be 320 in a certain area, but I just looked at the budget, and it's 700. But that ranges in size from these big ones through UNDP for the water decade or for energy down to small things, but even if it’s 320 significant ones, that’s large.

WEBB: And the Brady aspect [inaudible]

SHAKOW: There's a difference in deal-making and what some of this is. I mean, the Bank has long been the coordinator of loans of consortia. The original consortia, I guess, for India and Pakistan involved taking some of our money and the money of others and putting it, pooling it together and using it in support of priority activities. The consultative groups are a little less formal in that respect, but it's still taking Bank or IDA money and trying to direct the use of other monies and act in a coordinating role. This special program assistance for Africa is again the same sort of thing. We're trying to raise a lot of money to support certain objectives, tie our money to that of others.

The trust funds are not really deal-making. I mean, what that is is donors saying, "We're not prepared to increase the size of your overall budget, but we have a real interest in what you're doing," say in promoting development or environment or whatever, “and we'll give you some of our bilateral aid money" or whatever "to strengthen your program in this direction." Again, I don't think of that as deal-making so much as it is a way for donors to exhibit their preferences and in effect modify the priorities of the Bank.

WEBB: It’s the wrong word, but there does seem to be a much bigger element of relationship, dealing with people that are outside the Bank, institutions that are . .

SHAKOW: Absolutely. I agree entirely with that.

WEBB: You make it sound as though what’s, this particular department has a completely different role than what it used to have many years ago.

SHAKOW: Well, I think it does, but not necessarily for that reason.

My sense is that the Bank--from the outside, one looked upon the Bank as being very competent but also arrogant and self-assured and--with exceptions, of course, because we had people who didn't fit that mold, but somehow or other that was the sense of this big place. In the 1980s you could start getting hit with not only a lot of criticism that comes from the U.S. and others, but you begin to have these difficult projects that don't succeed so much, you're into some of the softer areas, in Africa agriculture projects don't seem to work and so on and so forth. So on the one hand you get a lot of criticism. You do not have a powerful voice at the helm who kind of overwhelms everybody. And during McNamara's period people didn't develop all the outside links that would have been useful to have now when you needed them, and so you had to start building them during the 1980s when you already had one foot in the hole because you were under criticism. If we could have done this during the 1970s and built relationships with the outside world, it would have been very useful because then we would have had a base on which people could build trust and understanding of the Bank. Instead we come into the 1980s; all of a
sudden we are the subject of a lot of criticism, and we have no friends around because the Bank didn't ever need friends. It always had whatever power and status it needed.

So I've long thought it was in the Bank's interest to open up much more to the outside world, to be much more sharing of what we know, to listen much more carefully, to demonstrate to the world that we are an organization that is both competent and caring. Most people in the Bank intellectually may accept that but in practice don't always behave that way. And yet I think what's happening is that we almost are . .

WEBB: You keep reminding yourselves.

SHAKOW: Yes! That we are in a position where we find more and more--and I think many of the staff are finding this--that they need the outside world. So while they're not exactly equipped or they don't always approach it the right way, but more and more it's happening. And that's why you find that these trust fund people have to go begging to bilateral aid donors to get money to do certain things, to get grant money to do things they want to do or to bolster programs where they know, given the tight budget, the governments imposing on us tight budgets, they'll still give us money in another channel. They do that because they want to reinforce a particular interest.

The NGOs--again, we've begun to realize that certain kinds of activity we get into we're not all that good in; NGOs are better. So you can go down the list of all these kinds of ways in which our contact with the outside world has increased. In my view, getting to the point where people do recognize that it's a two-way street, where we stand to benefit a great deal by being open and consulting with others and that others stand to benefit from us through that collaboration is very important, but we still have a long way to go.

But these trust funds are just an illustration of the fact that bilateral aid donors sometimes feel that they can't spend the money, and they would rather push their own pet interests with us, because they think that will be helpful. But we're still, I think, a long way from going as far as we need to go. And, to me, it would be much better if this money came to the Bank in its regular budgetary form because I think this undermines multilateralism. I think it really does divide--I've heard stories about how the UN has gotten into big trouble because donors go individually to various UN agencies and distort the priorities. And I think we're relatively strong, but we still might have that happen here.

WEBB: It brings in all these specific parochial interests and considerations that countries and donor agencies . . .

SHAKOW: And ultimately, even if people think it doesn't distort the priorities, in fact it does. Now, a lot of them are good things that I favor. I mean, the fact that the Nordics provide money to strengthen what we do in poverty reduction I think is a good thing, although I'd really like to have it well up from inside.

WEBB: On that, what do you think the chances are for the idea of policy position on poverty . .
SHAKOW: . . by government. Well, we have advocated that.

WEBB: There is a group, I think, a working group . .

SHAKOW: Well, there is a . .

WEBB: . . to develop criteria.

SHAKOW: Well, there is a group. A policy paper has been written on that. There is a handbook being developed which will show best practice on dealing with poverty-related issues, and there is a "what to do in the case" planning performance and so forth, but there also will be an operational directive at some stage or another.

But I think in terms of, say, allocation of IDA lending, that's been introduced not only in the *World Development Report* but as part of what the IDA deputies or the IDA owners have insisted is part of the program, that more attention be given to performance on poverty. We've always had a certain weighting in the decisions about allocations for poverty approaches, but what they have urged is that they be increased a bit, so that's something where the *WDR* provides a little bit more of a framework and a structure and a rationale for why it's important to look at these questions. But it's also an attempt to try to break it away from thinking that there are certain poverty sectors and other sectors are not poverty-oriented. The way the *WDR* came out, of course, it talks about a broad-based strategy which emphasizes growth which goes on trying to reduce the number of barriers to the use of labor as well as the important emphasis on the human resource development side of the issue. And so it comes down to a judgment call, of course, when you start allocating the resources, but that's being reinforced. And I think that we've been doing it, so I don't see any problem about doing it more intensively.

It'll be harder on some of the IBRD [International Bank for Reconstruction and Development] countries because that hasn't been a part of it, but, yeah, I see--this also rides a wave of support from a lot of donors. Now, there's a lot of hypocrisy there, too. And of course a lot of--you know better than I--how many difficulties there are on the developing country's side in trying to develop a commitment and a program that will get the Bank to be more committed than the government itself is to the people. So I do think that this helps to put more teeth into something which the Bank for a long time has said that it’s interested in.

KAPUR: Do you see any conflict between your, on the poverty side’s, performance based and therefore countries that are doing more for poverty should get more money, on the one hand, and then there's this new thing on governance, and there are a great number of countries--China, as you know--where the prerogatives of governance might not—where the focus on poverty might not be consistent with the quality of governance.

*Alexander Shakow*

*May 9, 1991, and February 7, 1992 - Verbatim*
SHAKOW: Well, first of all, we're still wrestling with this problem of governance and what it means and how we should play it, but—in fact, my colleague, Sarwar Latief, did most of the drafting of this approach paper on governance.

The sense that I have, at least, is that if you approach the subject of governance gingerly and carefully and focus it on trying to open the system up a little bit to assure more of the rule of law, to encourage transparency and accountability, those kinds of things should be what we are looking for in all of our work anyway and that if that can be done, that is likely to help poverty reduction efforts rather than hinder them. Now, that may not always work, but I think that one should be looking for the complementarities. There are people—if you were to talk to Javed Burki, he would make a very good intellectual case at least (though not everybody would agree with him) that China today is more democratic in practice than India is.

WEBB: Yeah, I saw him.

SHAKOW: Okay. But leaving that aside, I mean that you don't have to go that far to say that, sure, I think that's part of what bothers people on the staff, is not feeling that these pressures are coming from all sides. I think that as the debate gets further amplified or deepened in the Bank that some of these issues will begin to get sorted out and that one will see how a poverty-reduction strategy which is aimed at increasing growth and providing more opportunities for labor and more attention to education and so on will be seen as not, they're not at all inconsistent with trying to make sure governments work more efficiently. And the question is how far do you—I mean, just as in poverty you don't say, "We'll only provide more resources to governments that already have an operational poverty-reduction program that's working well," because you obviously have to—if countries are moving from a position of not doing anything at all and they're really now starting to work towards that, you want to encourage them. So a lot of judgments come into that, but your question is, clearly does, is one that bothers people in the Bank, and we're still trying to figure out what all this means. And governance is one of those where there's a lot of—I mean, that's why it's taking them so long to write this paper on governance. It's not going to be rigid guidelines.

WEBB: We'd like to see some of the inputs. That would help us.

SHAKOW: On?

WEBB: On—for the governance.

SHAKOW: You're welcome to see those. They are still in draft right now, but you ought to just come and see Sarwar Latief. He's the one who is coordinating all this work, and he's just down the hall, although he's not here—he's in Europe, on his way back to Europe—go visit him and I'm sure he'd be delighted to give you what they have. They have another meeting coming up, and they have another draft of the paper.
WEBB: The raw versions often will tell you a lot more of what . . .

SHAKOW: Well, there also are some--it depends on how much you're capable of reading these days, but there are—there certainly is a lot of paper on this. You've seen the [Ibrahim F. I.] Shihata paper, though, right?

WEBB: The original?

SHAKOW: The one that went to the Board?

WEBB: Yeah.

SHAKOW: Because that sets the parameters, but now they're wrestling with these other problems, which are more like the kind you're talking about.

WEBB: Well, we want to maintain our welcome for other visits, so I think we'd better . . .

SHAKOW: Well, I'm just thinking. I think I'm seeing somebody at 3:30 or pretty soon, anyway. But I'd be . .

WEBB: This has been extremely useful.

SHAKOW: Well, I don't know that it's so useful for you, but I have a great belief in the value of what you're up to, and I think as much as you can get from people in making some sense of--I sympathize with you. I don't know how you're going to do it. I told John [Lewis] that, too. It's a--this place is so big. But I will do anything I can to be helpful.

WEBB: We really appreciate that. Well, I guess it's evident; we could talk for hours.

SHAKOW: Well, so could I, too. I mean, that's the problem. And I tend to run off at the mouth here, so I'm sorry to do that to you. But if you find it useful, I'm happy to spend any time with you that's valuable. If you—I mean, it's always easier, as I told John originally, that it's always easier if you have the issues that you know you want some comments on because it's [inaudible] important it's hard to do, but if these kinds of questions, you narrow it down. I'll do anything I can. I take it this is now a full-time job for you. Are you still doing . .

[End Tape 1, Side B]
[End session 1]
WEBB: . . the 1982 report?

SHAKOW: Yes.

WEBB: And the 1988.

SHAKOW: There were so many in the late ‘80s. Is that the Shahid Husain report in '88, or is that the [Attila] Karaosmanoglu report, or . . .

WEBB: It was a follow-up to Karaosmanoglu that you supervised.

SHAKOW: Now, the ’82 report we did, but I didn't supervise the ’88 report.

KAPUR: You had--there was a Karaosmanoglu report, but either in parallel or . . .

WEBB: It was called “Status Report on Poverty.”

SHAKOW: For the Development Committee. Right, right. But that was written--well, actually I mean, yes, it was written in the context of, I guess, our department. Bob [Robert] Liebenthal and Helena Ribe and people like that worked on it. I guess that's right. Okay, but the reason I was a little surprised is that there were a couple of major reports in operations, one that Shahid Husain chaired, a group which was designed to focus on the subject, and the other was the Karaosmanoglu report which then was presented to the Board and--but anyway. Sorry. Go ahead and ask your question.

WEBB: Okay. The 1982 report, what was the initiative behind that? How was that--we saw a memo by [Ernest] Stern where he reacted to this in a rather odd way.

SHAKOW: I'm trying to remember. I mean, I know his reaction, but I'm trying to remember what that memo said. But the origin of this . . .

WEBB: And the reaction was a little bit procedural, saying, “Why are we writing this kind of report?” He used a phrase to the effect that it was like saying that we're not beating our wife anymore. I was wondering about the context.

SHAKOW: The context of it was this: in the early—and with 1980, 1981, and so on, with the departure of McNamara, with the arrival of Clausen, the oil crisis, the focus on structural adjustment, and the changes in the world that were taking place at that time, there was a lot of public attention and private concern inside the Bank that the fact the Bank was no longer interested in poverty reduction. And I think the symbols of this were McNamara, who was so identified with poverty reduction, and Clausen, who was a
commercial banker. And then you had, as I say, all these other events going on at the same time. So there was a strong feeling on the part of Mahbub ul-Haq and then agreed with, I think, by Hollis Chenery and others that it would make sense to take a look at this question in as honest and open a fashion as we could. I mean, what is in fact happening to the Bank's poverty focus, because certainly there were a lot of pressures that were changing in some of the elements of what the Bank was doing. We were no longer at a period where basic needs and other elements of some period of the late 1970s could be--wasn't that much attention being given to it. So the question was could we do an internal review to see whether indeed there was something that needed to be done to strengthen what we were doing on poverty. Had we forsaken it, or were we still focused on it and just didn't have a very clear picture of it?

So a group of seven or eight of the senior Bank people from around the place were pulled together as a committee--task force or whatever we called it at that time--and then Michael Lipton and I were doing essentially the staff work for it. And so we did a lot of scurrying around trying to collect as much information as possible, and we wrote a report which ultimately was, after a lot of debate and discussion, was the report that was issued called "Focus on Poverty." And our conclusion was that indeed we were still interested in the subject but that there were certain areas where we were falling short and some areas where we needed to strengthen our capacity. Among other things this was the advent of structural adjustment and that there needed to be much more attention paid to that and how you related the poverty issues to structural adjustment. A few years later we were saying the same things and--but that was the origin of it. It was a feeling which was endorsed at one stage or another by the president. I've forgotten now exactly how it happened. You may have more data there than I do on it. But the decision to set up a task force such as I have described, and it was endorsed, and then it was a Bank-wide committee, and ultimately the report was not only presented to management and debated and discussed there and modified as a result of Stern’s and others' views at some point, but then it was published and issued as a public report.

WEBB: It was essentially an internal . . .

SHAKOW: It was an internal study, but of course Michael Lipton was a part of it. He was a consultant at that point to the department.

WEBB: At the beginning, earlier you mentioned public attention, but were you really responding to--like now on WDR. Was there anything like that at all, or you were responding . .

SHAKOW: No, well, it wasn't as if it was one event. What you had was a mood in the world among certain people, groups, that the Bank had forsaken its interest in poverty.

KAPUR: The Board?

SHAKOW: Some members of the Board too, but . . .
KAPUR: But in a different sense.

SHAKOW: I think it was--sure, you would get newspaper reports. You would have magazine stories. You’d have people talking about it, but it was tied into these factors I was mentioning. And when Clausen came in, there were stories at that time that questioned whether he would continue the policies. Of course, McNamara was deeply identified with the Bank’s poverty focus, and although the report notes that--I think we noted at that time that while there were a lot of speeches associated with it, in fact a lot of what we were doing was not particularly poverty oriented during that period so that there was a--McNamara had done an extraordinarily good job not only in getting some things started in the Bank but also of making sure that the public image of the Bank in the ‘70s was one of a Bank that was deeply concerned with poverty. And McNamara’s personal commitment, no one doubted. Came the 1980s, the world changed, and all the rest. People were commenting on that.

And people inside were worried about it. I think some of the people in this group, people who were on this task force, were worried about it. Stern’s comment in a sense reflects why people were worried about it.

KAPUR: I was a bit curious. We have been sort of going through the chron files for the [inaudible] You know, of course, there are hundreds and hundreds of these files. But one never sees any reference to poverty. I mean, you know there is everything else [inaudible] It sort of strikes one in a way, and I'm just wondering if that had, more the perception of . . .

SHAKOW: Well, I think people did say that--people were busy doing lots of things. Structural adjustment lending was the big thing, and poverty, at least--I mean if you pursued it, people would say, "Yes, but this is what's needed in order to ensure that we actually get to the point where poverty reduction as possible," but it wasn't on everybody's lips, whereas in the ‘70s with urban development and rural development and all these other things and basic needs and so forth, poverty was constantly being talked about. But there was a change in the mood around that time. Also, it was the time of the Reagan Administration where people were scrambling to try to defend the multilateral programs, foreign aid, all these things. So, you know, whether you can measure it by the number of times the word "poverty" is mentioned in memoranda, I think it's true that that was not--people were not trying to figure out to deal with the poverty problems; they were trying to figure out how to deal with the broader macroeconomic problems which were going to have an impact on the poor.

And so one of the purposes of this task force was also to get people to the point where they did not forget that was also a critical element of what the Bank was all about and that if you're going to worry about structural adjustment, you also have to worry about the impact, you have to worry about how the poor are going to be affected and all the rest. But we were also trying at that time, if you've read the report, to suggest that it was not very sensible in 1970 to simply say, "Well, there are several sectors which are

Alexander Shakow
May 9, 1991, and February 7, 1992 - Verbatim
poverty-oriented sectors, and that's the measure of what the Bank's ability to work in this area is." We thought that was overly simplistic.

But, sure, I mean people I'm sure were not spending a lot--I doubt that Clausen in his daily discussions was immediately thinking about poverty issues. Now, he gave some good speeches about it, which were written for him, and he gave them and supported them, and the Bank staff, a lot of them, continued to be very interested in this issue. But it wasn't a big debating point. It was how do we deal with the oil crisis or how do we deal with structural problems.

KAPUR: I was wondering if, in the sort of larger feel of the institution, to the extent that the senior management's attention span is always finite, and as--if one has a new sort of item suddenly comes up on the agenda, intellectual agenda, almost inevitably other things tend to get pushed aside, a sort of earlier [inaudible] And if you observe over time more and more things that having added on the agenda--I mean, that's a sense—does that mean that there is--is there a sense that it means there is inevitably a lack of focus on any one thing [inaudible] division? [both speaking at once] We are taking this as an example.

SHAKOW: Well, I think that was not the period where you might think of that mostly. It was during the Conable period where there were various members with various initiatives. People were concerned at the operational level that they were being given too many initiatives to try to cope with all at the same time. Now, as far as poverty is concerned, it seems to me that most of those initiatives, or a key number of the initiatives during the Conable period, were ones that really, wrapped together, are very much focused on the reduction of poverty and that one shouldn't think of poverty as being one of a series of seven or eight initiatives. Poverty reduction is the overriding, overarching goal of the Bank, and the fact that women in development or population or primary education or health or, you know, any one of a number of other steps is an important piece of addressing the problem in a practical way. If it’s seen that way, I think that's not too hard for people to grasp.

I think during the early 1980s there just wasn't a lot of talk about it. Now, I think you can walk and chew gum at the same time, and so that it shouldn't be necessary for people only to have on their minds one thing, and I think that was an unfortunate aspect of the early ‘80s, that people did leave behind frequent references to poverty, and that did contribute to a sense of being pulled among many different directions. They weren't keeping that in mind, at least as kind of the ultimate objective, and they began to focus on shorter-term objectives and the complications of dealing with these macroeconomic issues. And, as I said, that's one reason why this task force was going to have an impact inside as well as outside.

But it's also part of how in a big bureaucracy you package things, and I think that the packaging was difficult to do during the early Conable years when you tried to help do that, and the system for adding on these initiatives was not entirely clear. That's one reason why I think Preston is now trying to at least make that clear that you can’t do everything everywhere.

Alexander Shakow
May 9, 1991, and February 7, 1992 - Verbatim
But in the 1980s, at least, it's my impression that we were continuing to do certain things. I mean, that was the time, for example, when you had the first free-standing health projects. You had a very active population group at that time. The rural development work was still going on.

One thing we learned, though, through some studies in the early ‘80s was that a lot of the numbers that had been cooked up during the 1970s to demonstrate what was being done on poverty were really not very useful or, let's say, they were constructs that you couldn't really rely upon them. So all these numbers that were being generated, the number of poor farmers reached and all that kind of thing, had a lot of water in it.

**KAPUR:** Do you recall any memo or paper which might . . .

**SHAKOW:** Oh, yeah. There is a long paper on this subject that was done for us by a consultant to our department at that point, Mahbub's department, done by a scholar from Cambridge, England.

**KAPUR:** Not [Wilfred] Beckerman?

**SHAKOW:** Yeah, Beckerman’s paper. I mean, he wrote a very--have you seen that? Because that's the one.

**KAPUR:** Yeah, I see. Okay. That's the one. Because I have the paper; I don't have the year.

**SHAKOW:** It was 1981, I guess.

**KAPUR:** '81. All right.

**SHAKOW:** But he blew all sorts of holes in these numbers, and as a result we worked through some other changes as to how we could go about measuring impact. And we ran into a lot of trouble on that too because people--see, this is the kind of thing that happens. You’ve got a Beckerman paper that says, "This doesn't have any validity; intellectually it's not responsible, and you're just fooling yourselves." So we thought, "Well, it doesn't do any good for the Bank to fool itself on this. It may be that during the 1970s we used this and it established the Bank as having a lot of credibility on poverty issues, but in fact we're deceiving ourselves. So we ought to move away from that and replace it with something that's more accurate." It went on for a couple or three years of trying to figure out how you would measure what the appropriate centile was for measuring poverty, whether we had the data to determine whether we were really reaching those groups or not. And the minute we moved away from using something because we thought it was fallacious, people accused us of losing our interest in poverty. So it's a very . . .

**KAPUR:** Damned if you do and damned if you don't!
SHAKOW: Yeah, that's right! And we explained over and over again that the reason we're doing it is that it's not valid that way. But it was a very hard time to have that catch up with us.

The same thing was true when we wanted to move away from using these three sectors, whatever it was, the social sectors as a measure on impact on poverty, and we said, “This is just not valid. We're doing what”—let’s say, the agriculture/rural development distinction which was at the heart of a lot of this—“These are not very sensible.” But the minute you try to change them, people see this as somehow or other a move away from the “Gospel According to McNamara,” and you are considered to be no longer in favor of them.

So that's part of what happened during the early ‘80s, too. We tried to become more sensible, and as a result we may have lost more of the image of being concerned about poverty. But if you were to talk to Michael Lipton about that period—and I don't know if you've done that or not, but . . .

KAPUR: We haven't. He’s sort of—he was here; unfortunately, he went back.

SHAKOW: Michael was . . .

WEBB: We can talk to him.

SHAKOW: Michael went through all this, and he’ll give you a view that's more candid than I can. I remember, for example, very vividly a discussion that Michael led on introduction of poverty concerns into structural adjustment.

KAPUR: I see. And that was much before the external . . .

SHAKOW: That was in 1982. I mean, it was at the time—it was in August as we finished our study, so it was just before he left. I've been trying for years to find the paper that he did associated with it or the summary of the meeting, because I don't think there—maybe there wasn’t a paper. But Michael argued very strenuously that you didn't need to have an enormous amount of data, complete accuracy, to be able to figure out ways in which you could assume that adjustment programs would influence or what you needed to do to protect the poor during that period of transition and all of that. And he said a lot of this you could do on the back of an envelope. He was arguing with the person who in Chenery's group was doing research on some aspect of this, Pradeep Mitra. He's still around here somewhere.

KAPUR: He’s in a country office.

SHAKOW: Pradeep was doing research at the time, and I had put a lot of weight on some research that Pradeep was doing to give us the arguments that would make it intellectually responsible to look at how poverty and adjustment could be looked at together because one of the recommendations you'll see in this “Focus on Poverty” report

Alexander Shakow
May 9, 1991, and February 7, 1992 - Verbatim
was that in the development of structural adjustment lending one should take into account this issue much more. And that debate went on. And Michael made this point very strongly, and the others, the Bank regulars, were making the opposite point, saying, you know, this was really a—the structural adjustment issue is quite distinct, and you need to keep them apart, and you need to—if you want to deal with the poverty issues, deal with them in a complementary or separate way, but you can't integrate it into the analysis.

And when a subsequent paper was written by Yukon Huang—he's around here somewhere; H-U-A-N-G. Is he still working in Bangladesh? I've lost track. Anyway, he wrote a paper probably in 1984 on adjustment and poverty. This was as you were beginning to get a lot of attention to these issues; UNICEF and others were raising the issues. And his position also was very clear, which was the Bank's position, that you couldn’t—that adjustment was adjustment and that had a certain set of objectives, and if you muddled it by getting interested in issues of poverty—which are serious issues—but just the analysis didn't permit you deal with them together.

And that position is what it was until gradually we began to realize that adjustment was taking longer to introduce, and the impact was more severe, the time period was longer. And so gradually we're getting to the point where now you have a lot of people working on the integration of these two, an adjustment transition over ten years, but it was very clear at the beginning that . . .

Stern, for example, was very strongly in favor of saying, “Well, you just should not get into adjustment programs that deal with education or health or population.” There were people from time to time who wanted to glom onto or wanted take advantage of the fact that a popular new vehicle was fast-disbursing adjustment loans: “Why don't we do one in which you get a policy change on population or something like that, and you buy the change in policy that way?” But there was a very strong view, at least at that stage, that it was not the right thing to do, that this was really meant for a very narrow set of issues. Over time that, too, has modified and the sectoral adjustment loans, of course, get into all sorts of things, education and so on.

Anyway, I'm sorry I went on at length on this.

WEBB: Along those lines, there is a paper by [inaudible] on the effects of adjustment on the poor in Latin America. I remember, I think, he had some trouble with or a bad reaction from Stern. Do you remember that incident?

SHAKOW: I don't remember that one in detail, but I think that there's no question that Ernie has from the very beginning had a very clear view himself about some of these things that where he, I mean, he would--he had a much more rigorous approach to this than some of the rest of us. I mean, I was part of the [inaudible] group that was saying we really ought to be much more concerned about poverty issues. Ernie's not saying that poverty is not an issue; he's just saying you deal with it in a different way: separately.

WEBB: Yeah, I understand that.
**SHAKOW:** But I can imagine that—I don't remember the *inaudible* case. I remember the report, but I don’t know—I wasn’t involved in the debate he may have had on the substance.

**KAPUR:** But at the same time how did he then--what was his sort of vehicle that, look, adjustment is not the instrument to be used by the Bank to deal with poverty now. Then his basic thing was that projects were . . .

**SHAKOW:** Well, I think that his policy first of all was that in the long run that the policy--if you follow good policy, then you get growth that is going to be generated. This will be beneficial to the poor. That's crucial. Meanwhile, we have other activities that we and others undertake which should address more directly the poverty issues. I think that--I mean, you'd have to ask him--but I think that's finally the way he would come out: don’t muddy the waters by taking a problem that is quite clear and can be handled by several actions.

I mean, the extreme version of this, of course, is that the Fund stabilization programs have a very narrow set of objectives, and if you try to add on too many different elements, ultimately you weaken the core objectives, and you don't then get those benefits, and it makes the whole thing fall apart. I think what he was saying essentially is that on at least some of these major macro issues that you add on too many burdens and it won't be able to achieve its fundamental objective and therefore it will be detrimental to the overall results. I think--again, he was much more eloquent on this than I was--but that's I think the basic message.

And I think what's happened over time is that we have learned that everything didn't quite work out as well, largely because of a lot of other factors including what's going on in the world economy and the degree of resilience that governments had or strengths to carry through and do exactly what we thought is right. And if they had done exactly what we said and they didn't have to worry about politics and everything else, then maybe all this would have been true, but that was an unreal world.

**KAPUR:** Would it be fair to say that in its way it sort of symptomizes the fact that for a long time fundamentally the institution, when it comes to like conditionality and so on for a long time, really it was on those variables which affect loans, not really on those which affect, say, a fundamental social change . . .

**SHAKOW:** I'm sorry. I missed the first part of the question.

**KAPUR:** Which is that this sort of attitude, that if we are to use a policy of conditionality as an instrument, you know, let's just focus on the macro variables.

**SHAKOW:** Well, no. I mean, I think we've always had conditionality in Bank lending. If there’s a project loan for power, then there was conditionality there. So that I think what over the years people would have said is that you have to engage in the
conditionality—or, let's say, the dialogue, as we'd rather put it—ought to be chosen appropriately for the issue and that to get into something as—I mean, if you're talking about, say, trade policy, you're worrying about opening up imports, exports, whatever, that those are decisions that governments can pretty much take if they understand what the issues are and if they are protected sufficiently to handle the impact of them. Those are governmental decisions that can be taken by decision-makers. If you get into something like poverty reduction, it then becomes not so much a matter of a simple policy change—simple, I say, [inaudible]—it's not just a policy change. It requires an investment in the training of lots of people, of building institutions or—I'm not trying to say that the other decision doesn't, but I think that the fear was that you start using these policy loans to enact change in something that is not susceptible to simply a decision or a rule of government but instead requires many years of investment and decision-making, that that's just not as apt a tool and that, sure, you do have policy discussions about issues, population and other things.

**KAPUR:** I'm sort of curious. If you look at just the allocation of public, you know, the public expenditure review which slowly—from the public investment review [inaudible] the Bank [inaudible] public expenditure review, that that itself, just the allocation of those resources, was that ever seen as an instrument . .

**SHAKOW:** Oh, yes.

**KAPUR:** . . or to address this issues rather than going into the details?

**SHAKOW:** Yeah. No, I think that again it was more in, say, Africa, I guess, rather than in Asia that they were doing this. I'm not sure. I don't know enough about that. But certainly the fact that we were in a position to influence the direction of flows of resources internally—it isn't just our lending program that makes a difference. In fact, what we've discovered over the years is that the Bank's influence is over the entire package of, envelope of resources, and that the investment program decisions are very important ones in which we can direct not only external resources including our own but very importantly domestic resources, so that that has been seen as a very important way of influencing the poverty focus, moving away from certain kinds of investments and help to others, or being sure that what we've learned in various sectors is applied and those countries know that experience has shown that you get much more benefit from primary education than you do from spending 18 or 20 times as much per pupil or per student on higher education, that that's a sensible thing for us to be doing. You get a lot of support for that in senior management because they were, I think, seeing an aggregate, a selection of tools and instruments and that, at least at that time, the beginning, the macroeconomic problems were the ones that were to be addressed most easily by fast-disbursing assistance that led to adjustment loans.

There were also legal issues that had to do with materiality and everything else, I mean, that if you were to use fast-disbursing assistance for programs that disbursed quite slowly, that was a tricky problem. And that's again looking at the lending side of it rather
than what the policy objectives are, but whereas where you can justify [both speaking at once]

**KAPUR:** I’m sure about that word.

**SHAKOW:** "Materiality"? You have to talk to Shihata about it, but there has to be a link between what you're lending for and what is being done. So these simple check-writing operations are not meant to be, do not meet the criteria of the Articles which require that in effect you actually are buying something. When people first designed the Articles they were built around an assumption that they would be involved in project aid, so that the lawyers would spend a lot of time figuring out how do you justify these essentially program loans. It's one thing to do it in terms of imports, but if you're doing--take population, for example. If the main expenditure for the population program is the training of people or the building of institutions over five years, how do you justify a fast-disbursing loan for that purpose, other than trying to bribe the government to do something for you which they wouldn't do otherwise or something of that sort? Now, again, I'm not very good at explaining this issue.

**KAPUR:** There was a lovely story by [Robert E.] Asher in the history. Apparently when George Woods started the program loans for India, B. K. Nehru was the Indian ambassador, and he said, you know, “What's your problem? Just treat India as a project.”

**SHAKOW:** The whole thing, right? [laughter]

**KAPUR:** That’s right. India as a project.

**SHAKOW:** But these are the--so there are all sorts of issues on this. I mean, we've gotten off poverty, but that's part of what lies behind it.

But, I mean, there have been strong differences of view over the years as to how you best use the Bank’s influence. And people used to tell me when we started that project, that task force, I kind of came into the World Bank thinking, “Well, everybody believes in all these programs, that [inaudible] widely known during the 1970s and identified with McNamara and the Bank,” and I've been on the outside of that, reasonably well informed, and I thought that the Bank was doing all this. And then I learned at the time we were doing some of this work that the assumption was that probably there was not much difference in 1982 or 1981 than there was during the ‘70s, that roughly 50 percent of the people in the Bank probably believed strongly in what McNamara was talking about and 50 percent didn't. And when McNamara left, there were people who worried that the 50 percent who didn't, encouraged by these other developments, would gain the ascendancy and that by no means was all this speech-making to be reflecting a unanimity of view on poverty issues in the Bank and that there were a lot of people who still thought that trickle-down was necessarily required or whatever at that time.
WEBB: When you were doing that report, I wonder—when you were speaking of the targets, could it have been the Board, but was it rather like presidents and directors or maybe much more general . . .

SHAKOW: We had multiple targets. I mean, I think that my major interest at that time was—in thinking of management and staff—my primary objective was not the outside world nor was it the Board, although I thought that if we did a good job it would be helpful to our relationships with the outside world but that more importantly I was interested in what the Bank's policy actually was and that it was therefore the managers inside and the people who worked on the staff and so on that we wanted to reach out and try to make sure that they didn't in fact neglect this area, that the pressures that they were under didn't result in the issue being pushed aside, and that there were some decisions that needed to be made, and the management had to make those decisions but that we didn’t want them to reach—we wanted to make sure that Bank did maintain its interest in this subject and improve its capacity to deliver on it. The subsidiary benefits were that maybe the Board would understand better what was going on, and the public would, too, but I was—I had come from being in charge of policy at AID. I was in the department that was concerned with policy here, and our objective was to make sure that that's what the Bank's policy was, for better rather than worse.

KAPUR: Now, between this report and, as far as I can tell, and the Shahid Husain report, there don't seem to be any other, you know, at that level . . .

SHAKOW: Not on poverty as such. There were these other reports on adjustment lending, on assessments and things, all these—you see, you had bits and pieces of things, but there was no Bank-wide effort to try to raise the level of attention to this and so on and so forth. No, that's right.

KAPUR: And then the Shahid Husain one, was that the first action of Conable, or [inaudible] Where did the initiative for that . . .

SHAKOW: That came—I can't remember what the proximate cause was for that.

KAPUR: I think it happened before the reorganization.

WEBB: '86 or '87.

SHAKOW: Yeah, I mean, part of the problem was that in fact some of the people got deeply wrapped up in that. That one never quite got off the ground. Or it got off the ground, but it didn't quite fly very far because, partly because the reorganization and you had everybody all wrapped up in other issues, partly because—I mean, that's one where you ought to ask Javed Burki, if you haven't asked him, because he was very closely involved with that one. There was a group of people. That was meant to be an operational group particularly, and there was some problem with that one. I guess it was that senior management wouldn't buy into it. I think that was probably the problem, that

Alexander Shakow
May 9, 1991, and February 7, 1992 - Verbatim
they were suggesting some country focus and other things that simply didn't sell with the senior vice presidents.

KAPUR: It was critical of the Bank, of what had been happening.

SHAKOW: Right, that's right. It did identify certain things. Basil Kavalsky was also, I guess, very much involved in all that. They wrote some fairly interesting papers, but it just didn't get off the ground and never actually--one problem was that they never actually had a final report. There was a brief report that was done, but a final report never was submitted. So you had an interim report that was around somewhere--no, I think you'll never find a final report. I mean, I think what happened is that--I guess, because I remember drafting a letter from Conable to Shahid Husain thanking him many months after this to put a final conclusion on this. And then a little bit later you got this Karaosmanoglu thing picked up because Moeen Qureshi realized that it was important to have some attention paid to this subject. And by that time, I mean, you had a new president and a new Board, and the Board was wondering what was going on. Again, this is all fuzzy in my mind, but that's kind of the way I remember it.

KAPUR: Plus, I guess, the ripple effects of the UNICEF report.

SHAKOW: That's right. It was clear that we were not paying enough attention to this.

WEBB: Can you remember any particular effects of the first one?

SHAKOW: Of our report?

WEBB: Yes.

SHAKOW: The 1982 report.

WEBB: I saw a note on the presentation to the Board in April of that year, about a month after the report. And everyone was very enthusiastic; all the Board members praised that this was what the Bank was doing. But in operations [both speaking at once] even if the Board--any particular shift, some VP who was born again? Or the reverse?

SHAKOW: Clearly, nobody was born again. No, I mean, I think that one would have to say that while we could refer to the report and we could use it to beat people over the head from time to time, that in certain critical areas there was much less done than we would like, including on this adjustment issue, the introduction of poverty concerns in the adjustments. Although that did happen ultimately, it didn't happen right away. Some of the other things that were recommended--I guess, yes, it was probably, I would say, it was probably fair to say that it was disappointing that there was not that much, and partly it was that there was no one really using that as a club at a senior level.

One of the things about the Clausen period was that he did not follow up on--he made a lot of very good speeches at that time, but he didn't always follow up on them or demand

*Alexander Shakow*

*May 9, 1991, and February 7, 1992 - Verbatim*
performance related to them. So you would have a speech given, and then there wouldn't necessarily be--the next day or next ten days--people being asked to be sure that they followed through on them. He gave some on poverty, and I think that was probably true in this case, too.

But, yes, it went around, and a lot of people read it and saw it, and we tried to talk about it. We went around and talked to people, and I think for staff who were interested in this subject or who had a proclivity in this direction anyway, it was a reinforcement for some of the things they wanted to do. So I think it was probably helpful, but I wouldn't claim any kind of dramatic impact from it at all.

WEBB: Was there still some VP then who was kind of openly aggressive, negative about that kind of language, of that being made part of the Bank's business?

SHAKOW: You mean poverty and all that?

WEBB: Yeah, because you'd find people like that in the ‘70s.

SHAKOW: Yeah, well, I . . .

WEBB: Is it just the issue that bothered [inaudible]

SHAKOW: Well, I don’t think that any--I don't remember. Now, I may be just naive on this. I don't remember anybody being so averse on that, although I'm sure there were people saying, “We've got these adjustment programs to worry about, and this poverty stuff is just, you know, that's icing on the cake, and we've just got too many other things to do.” I'm sure that there were people like that around.

WEBB: Did you sense regional differences?

SHAKOW: I don't remember. My memory is too weak on that. I think that probably in Asia they were more concerned about this than they were in Europe and in Africa, they were beginning to worry about that. But I can't remember. Frankly, I really don't remember; it doesn't stand out.

WEBB: [Nicolas Ardito] Barletta was then . . .

SHAKOW: Right.

KAPUR: In terms of the intellectual product, the PR, the fact that Anne Kreuger came after Hollis left, that just made this more . . .

SHAKOW: Oh, yeah, that's true, that that made it harder because Anne was not particularly interested in the subject. You see, part of what happened, too, is that . .

KAPUR: And then, of course, in ’82 you have the debt crisis.
SHAKOW: We had the debt crisis, and not long after that I moved out of that office. I mean, Mahbub left. Bevan Waide came in. Anne came in. So that, yeah, I suppose that that certainly had something of a chilling influence on some of this.

But you didn't have a really active advocate. I mean, when Mahbub was here, of course, you had Mahbub. People like Herman Van der Tak and others worked very hard to promote these kinds of objectives, but there probably was not a vice president in that group that was really actively going after . .

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

SHAKOW: . . . but the other side of it was that she probably didn't have anybody who was making a major push on this because there were these other issues to worry about, I mean, the debt crisis and some of those things.

KAPUR: One of the things on which one always gets mixed messages about this institution says as opposed to what it does, and, you know, on the one hand you can sort of raise an issue like this and point to the enormous influence of signals sent from the president and especially the deputy for operations on poverty. And then there are others who say, "Well, you know, there are all these division chiefs, a lot of autonomy. People are doing their own stuff. You get industrial projects and the Bank gives a loan, and it's, you know [inaudible] happening," And this sense of more or less again in the same sense, a very strong sense of a diversity, a lot of things happening and so on. How do you--what's your own . . .

SHAKOW: Both are true.

KAPUR: Both are true, obviously.

SHAKOW: Yeah. It's a big place. Certainly signals from the top are very important in a place like this. Certainly during McNamara's period, I guess, he knew how to make not only the signals work but he also knew how to put something behind it because he would expect that if you're going to have a rural development program, he would make it clear to people that there was going to be money available and loans available, and countries would ask for them, strangely enough, because of that. And I think he was a master of using the signal and providing more to support that.

During the Clausen/Conable period I think there was certainly some effort to send signals from the top. Conable particularly had certain interests and that, of course, did result, in people also were getting a sense that we really were concerned about poverty, and programs of that kind would be supported. But there's no doubt that there is a lot of autonomy in the project offices, the most powerful people in the Bank, and somewhere you blend these two.

Alexander Shakow
May 9, 1991, and February 7, 1992 - Verbatim
I sometimes look--I mean, as an example--at what we've been doing with nongovernmental organizations, which it seems to me is an example of both. Just about five years ago we had practically no projects that included the nongovernmental organizations. I want to say ten a year out of 250 or so were approved by the Board, and now we have close to 90 this past year out of 225. So we've moved from just a few percentage points to about 40 percent, and that's partly a function of senior management giving the signal that working with NGOs is okay, partly a function of people at the staff level who have recognized that our best is not entirely--that success depends on being able to reach out at the local level and that NGOs have a way of doing that. It's also partly the kind of support that we've been able to give them.

But I mean I don't know how to tell you at any period what the balance is like, and I'm probably not in a very good position to decide that or to offer a judgment on that. But I've seen it work both ways, and I think the president who tries to get too many things done that way tends to be giving signals as we were talking about earlier. Many people by the time that Barber Conable left really knew that he continued pushing the institution in the direction and that he really was very much concerned with poverty and with the environment and signaled his special [inaudible]

WEBB: When I left the Bank in '80 and went to government--I wish I could remember better, but I--between '81 and '82 there was an initiative to present [inaudible] It may have been in early '83, but it had been in '82, I think. And of course a lot of initiatives coming from the Bank were related to [inaudible] saying, "Look, why don't you do this?" It was all new to us, and I was very--trying to steer the government through the central bank. I was trying to look at the ways in which the government could experience better quality programs. And I got some--I remember asking and being told, yes, it could be [inaudible] for a poverty program, and on the basis of that I took the initiative with the president [inaudible] basis of a treaty, for one huge [inaudible] to fund a poverty fund which combined both things [inaudible] poverty and the World Bank really important fund. Well, the president wasn't excited about the initiative, but . . .

KAPUR: The Bank would affect the region.

WEBB: But my point is this: am I remembering wrong, or was this actually alive, this possibility?

SHAKOW: It's surprising to me that the Bank would have encouraged you in that direction because that is not what they normally would have done. Now, it may have been some member of the staff. I don't know who the staff member was who was doing this, Paul Meo or somebody like that, but it may have been somebody telling you that without knowing that at that stage things were still a little big vague as to how they are to be done, and maybe that . .

WEBB: What I do remember is that that staff member was very vague. He didn't know.
SHAKOW: He was probably learning. I mean, if you say--happy to say if somebody says you want to have a poverty focus on this thing, how could he say no? I mean, there’s that kind of thing. But I’m sure that when they would have come back here, they would have had some problems in the design. Now, of course, what we end up with now are these over-the-air social safety net programs, emergency funds and all sorts of other things that are done either part of or complementary to the [inaudible] but in the early years nobody thought this problem was going to go on so long. Let’s say that the Bank leadership thought this was a three- or four-year problem. It was going to be over, and the world would be all running smoothly. But I don’t know about this Peru case. I’d be fascinated if there really was a chance.

KAPUR: In the ‘88 report which you wrote, you know, how did that sort of [inaudible] for the Development Committee?

SHAKOW: Which one? The ’88?

KAPUR: The ’88.

SHAKOW: That one was a report the Development Committee had asked for, and so it was designed to bring people up to date on what the Bank was doing. That was not a major report.

KAPUR: But did you draw upon the Karaosmanoglu report or . . .

SHAKOW: Oh, yeah. Frankly, I've forgotten even what's in that one now, but certainly it was, if I'm not mistaken, it was written by Helena Ribe, and it drew on the work that had gone on, and we were also trying to characterize what was going on in operations, which is always the hard part in all things. I mean, you can always refer to documents that have been written or reports and essays on subjects, but then somebody says, "Well, what are you actually doing?" We know we're doing a lot, but getting that information is very hard. But I'm pretty sure this report is one that tried to bring up to date what had happened in these various surveys and studies and task forces and was letting the Development Committee know what was going on. But I don't remember it very well.

WEBB: Thank you very much.

SHAKOW: It's always fun to talk with you.

WEBB: Your memory works so hard!

SHAKOW: I'm sorry that I don't remember some of these things as well. I'm interested to note how little I recall of certain things!

[End Tape 1, Side B]
[End of interview]