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Transcript of interview with

TARIQ HUSAIN

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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.

Tariq Husain
February 9, 1993 – Final edited

*[Begin Tape 1, Side A]*¹

WEBB: . . . importance of the presidents of the Bank. We're particularly impressed by *[Robert S.]* McNamara.

KAPUR: And *[Eugene R.]* Black.

LEWIS: And Black.

HUSAIN: Actually *[inaudible]* we had a conference recently. We have in this *[Middle East and North Africa]* Region a great council of advisors for the vice president, essentially to get their views who are non-government people, but opinion makers and all different people. And I was asked to talk about the development impact of lending. And there's a paper--which I can give you, if you wish--where I have traced by analyzing essentially what we have done as an institution since 1950. And I found that while our lending impact is diffuse, our idea impact is very important. So if we look at the institution as an institution which does far more than lending, then the major effect that we have had on the world, by putting issues on the development agenda of countries, is through the idea route. And we saw that happening in both institutional creation and agenda addition in the '50s and the '70s. We were not doing much of it in the '60s and in the '80s. We were taking the back seat, in effect.

WEBB: Institutions and what, did you say?

HUSAIN: Well, I mean, let me just--in the '50s four things which happened, it seems to me, which are important in my mind certainly, distinguishes the Bank from other institutions is the creation of the two institutions IDA *[International Development Association]* and IFC *[International Finance Corporation]*. And at that far away period one looked at the private sector as an additional and the importance of concessional aid. Now, you may recall that at that time foreign policy did not have aid as a component. So that was essentially aided by the advocacy of the president of this institution at that time. So aid became a separate aspect of foreign policy.

So IDA's creation was almost the recreation of a Marshall Plan, but this time not for Europe, but for the poor world. And that was an idea which is breathtaking. We now take it routinely. So it was an institution which was created, the concept of concessional aid in a world which did not believe in that at that particular time.

The Indus Basin, in which two countries went to war, then didn't go to war, and the institution intervened over a ten-year period to address the issue through the Indus Basin Treaty. And I don't think that we have done another thing of similar magnitude in terms of benefit to the world. But then the idea was intermediation, the idea was of sharing, the

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 [].

idea was of solving the problem in an unconventional way because the way they solved the problem was not distributing rivers proportionately, but distributing whole river systems and taking into account the very complex issue of riparian water sharing. That was a period in the '50s, massive impact on the global scene, essentially coming out of this institution. Those are three. The one is on the agenda that concessional aid and private sector, the concept of consortium. India, for example, was the first one which benefited from the consortium. Now it is a routine thing. But look at the idea of the donor countries coordinating their outflows, which you could combine then the intellectual underpinnings of whatever one does in terms of resource use.

Then in the '60s we didn't do very much. So, I mean, you can see essentially the impact of the president in that kind of thing.

Then we come to Mr. McNamara, '68 to '81, and year after year, I mean, he basically added to the agenda in which issues such as nutrition, issues such as the impact of nutrition on the productivity of young children, and the impact on organizations, essentially redefining development and poverty as the two sides of each other, getting into fantastic issues like income distribution, not going very far in making a dent on some of those fundamental problems, but putting them on the agenda. I mean, I have referred to his speeches in which those subjects were introduced, how complicated they were, because he didn't only stop just on that. I mean, to take income distribution as an issue was a really profound jump, as far as I can say, in the '70s, and it was not necessarily prompted by the fact that the first oil crisis was about the beginning of this period. It was not that. It was fundamentally intra-country and the fact that unless you address that issue, you don't impact development and so on.

Then in the '80s we come--debt hit us squarely, and we were unable to cope. We basically fell behind. The kind of solutions we gave were following the bilaterals and wrong solutions in effect, the Fund [*International Monetary Fund*] moving in to tackle the problem, but not essentially from a development context, not solving the problem in the appropriate way. So your two major world institutions essentially came from the U.S. administration, and all we see at the end of the '80s is some policy changes here and there, but far greater stock of debt. Now we're beginning to get to the kind of problem that both sides here represented.

Now, each one of these illustrates that absence of leadership at a central institution, either in one case, allowed the world to move in one direction, in the other case failed to do so and we got caught. Those are the kinds of things I had in mind when I was writing the speech.

Now, the paper I have is--I haven't developed it in that way--but the idea there essentially was that the institution has done three things, and that's what I defined the Bank. One is lending itself and associated with that is technical assistance. The second part is idea leadership which is [*inaudible*] of the ideas in which one puts ideas which have not surfaced before and put on the agenda of the world. And the third one is to essentially use those ideas to leverage resources internationally or intra-nationally. And those two things,

which is the second and the third, we can do better because we have the lending instrument. In that sense we are a unique institution. Unlike other agencies, both bilateral, maybe mainly other U.N. agencies, if we combine these three well--and in some periods we have done that--our impact has been large. Otherwise it has not.

LEWIS: I was going to ask you whether you thought that you could, that the Bank could have had the same impact without the money, but you just said that you think that the two work together.

HUSAIN: Combined together, yes.

LEWIS: Let me just ask you about your pattern of the '50s and sort of the missing leadership in the '60s and the strong in the '70s and again missing in the '80s. If you take the subject of policies, particularly macro policies, and you go back, say, to your country and India, at least, and to some extent Latin America in the '60s, under [George D.] Woods there was quite an attempt to focus on policies, wasn't there? And not always successful, but nevertheless a--and that in a sense was a precursor, it looks to me, for the whole policy-based lending focus of the '80s which has been certainly, in terms of degree at least, a new kind of idea input from the Bank.

KAPUR: I just want to add on to John's point is also the other view, which people say of the '80s: when you are short on money, you are long on policy, so the Bank either didn't have the financial resources and therefore pushed policy more and more.

HUSAIN: Okay, let me attempt to answer. You see, from the very beginning we have said that we begin from the macro and down to projects, and of course because we are doing projects that's basically what we're remembered for. But we've already said that. In the early part, if you go back to our initial efforts of technical assistance, beginning with Colombia, solid team, solid sector work--really solid--in which you have as profound an analysis as any group of people can do, real deep analysis of issues, proper trade-offs and so on. And, of course, at the invitation of governments, so you have receptivity, you have ownership, you have discussion and dialogue, internalization, follow-through, et cetera, the money also became important. And we did a couple of countries in the '50s; of course the Indus Basin.

Then in the '60s, that was one thing, but that was a follow-through of other thing, not necessarily leadership. It was not coming from us. It was other events, post actually the 1960 Indus Treaty in which some of our best sector work was done. Now, in Latin America we did, but that was a serious [sounds like "doublou"] which could not be combined with the proper leverage. That's what I see in the '60s in effect. Yes, we were doing that. There was some solid work going at that time. But what leadership is able to provide is some of the combination which produces a different chemistry, which is leverage, profile, people wanting to join in and follow through.

I mean you say, for example, McNamara arrives in 68 in Indonesia. He says, "What can we do for you?" And then does it and makes a difference. In effect some of the things

which Indonesia was able to do in the late '70s is because of that beginning. And not only just that. You put Mr. [Bernard R.] Bell there, and you break all organizational rules and have Mr. Bell report to him. Okay? Those are the way you solve the problems. So it is bottom line, solving the problem, having a vision, not being afraid of tackling those people who really are our masters in a sense, going out there to discharge one's mandate. That courage and that vision makes a difference in the impact of whatever we do. We can write about policies, but they have no impact. That's when linking with lending becomes very important because then we can speak with some weight.

In the '80s, yes. But even though our policies, in effect, what we did in the '80s was, that is a [Ernest] Stern-led operation, in effect, saying, "Are we relevant at all?" Okay?

Now if you go to your Articles, you say, "productive use." So you say, "What is productive use? [inaudible] then the policy package?" And if you go to the debate at that time, the intellectual conceptual framework was missing. It was essentially a seat-on-the-table type of an argument, okay, and then short-term solutions because of the complexity of the operation, because of the fact it couldn't just be international. But if you look at the analysis that was being done, essentially you can basically make some of those crude rules early on but following it through that it will happen, owning up to it, which analysis might have--I don't know if one could analyze those kinds--we were poor on policy itself beyond the exchanges, changes, and some of the other things.

KAPUR: You mean especially sector level policies?

HUSAIN: Yes, actually sector level, absolutely sector level, because that is, you see, which we are now coming to, sector strategy, sector policy, sector deepening, institutional underpinnings. Without those you don't have internalization. And also the participative process in which you go for the bottom line because unless they wish to do it, are able to do, it shall not happen nor shall it be sustainable. That was missing in the '80s. We just wandered, in effect. That's my view: We wandered.

LEWIS: You've been here a long time now. How is the Bank as an institution builder? Is it well? Does it have a comparative advantage at that kind of thing?

HUSAIN: Today?

LEWIS: Well, through the--either today or earlier.

HUSAIN: Okay. I think it remains one of the finest institutions that I know, but I work here. I don't work--I have had some exposure to others, but I find in this institution, at least on my count, the capacity that I have has been the limiting factor, not the institution.

LEWIS: I was asking about the Bank as an actor, building, helping to build institutions in the developing countries.

HUSAIN: Okay, that's good. All right. Again, we have built better institutions in the '50s and '60s than in the '70s and the '80s because of our focus on infrastructure or the utilities or intermediary agencies, those kinds of institution-building, which now, some of them are functioning, others are not. But the infrastructure focus enabled us, and we stayed with them. That's necessary for institution-building. And it was not short-term, and it was focused on the institution. It didn't get clouded by all kinds of other agenda items which may or may not impact, the way it is happening right now.

KAPUR: I'm wondering if you could sort of ground some of the observations you're making, especially of the '80s, in your experience in Nigeria.

HUSAIN: Okay. [both speaking at once]

KAPUR: I mean, here is the largest African country. Africa is the one region where by most accounts the Bank has had very difficult times. Here is a country which had at one time a lot of resources. Now it is facing a lot of problems. Does the Bank have any weight? Can it have any weight? Were the ways it went about it, do you think, the right ways?

HUSAIN: Okay. Well, in Nigeria, let me recount that--I mean, those become anecdotal but they remain very central. They were not listening to us.

KAPUR: In the early '70s.

HUSAIN: '80s, when the debt crisis became very large, they did not listen even as far as '82. Our advice was reasonable, and actually some of our work in the early '80s was almost the kind of work that we should be doing more of, which is alternatives for them. I mean, we say, "Okay. Do this. These are your problems. These are various ways of handling it, and that's what we suggest." All right? But they didn't listen. They began to listen when it became essentially beyond their control and the weight became too large. And then it was short-term solutions.

KAPUR: And that, you think, happened after the oil prices dropped?

HUSAIN: Yeah, essentially they started listening to us about '86.

KAPUR: '86.

HUSAIN: Okay. Now that event was of the following type. Stern said that he will not go to Nigeria unless [Ibrahim] Babangida is willing to devalue or make a basic exchange rate correction. There was no way one could assure that.

Now, let me recount you the kind of meeting which took place. When Stern arrived there, he was met by the then-finance minister who . . .

LEWIS: This was in '86, right?

HUSAIN: '86, yeah.

. . the then-finance minister who didn't really believe in reform but was the best guy they could put forward and was a very complicated individual, very complicated individual. And his personality affected us subsequently, but in that--and he started talking with Stern about implementation policy, and Stern almost falling asleep. Then other kinds of routes were chosen to get him (Stern) to President Babangida.

Now, Babangida is a very exceptional man, a very, very bright man. He said, "Okay, you guys talk about this. We'll do it. We'll experiment with the exchange rate auction system with 100 million a month or something like that."

And Stern there took a real good turn. He said, "No. If you want to play with 100 million, then I won't come with you, and it's not serious. What you must do is put something which really tests the market so you really feel the pressure."

Babangida had the confidence to basically accept that and move, and after that we went with the trade policy loan and [*inaudible*] Fund loan. The Fund was not leading in that particular operation.

Then they did it, but the first budget came and they backed away. They started affecting people. Then we have other stories on the '87. They were listening to us only to the extent that we were able to persuade.

Now, this man has stayed with us until '88, and it was extremely complicated. On the Bank side is--Stern, of course, left the chair of power, and other people came. The new country director, which is this man who is sitting here, was able to take charge and is a man who uses persuasion. So we had a team. I was posted there, he was operating out of here, and one could play the game. And we worked with them that we can get you IDA, you--for example, in '87 they were unwilling to accept that the income per capita cannot follow. We had to make our argument with them then you've become IDA eligible and even that persuading took time. Then the links with policy. But over a five-year period we were able to turn at least our lending program into the right kind of development impact things. Takes a lot of persuasion, a lot of political economy, a lot of, you know, working on the public opinion, a lot of working on the donors, essentially total commitment of this particular group.

And McNamara came there in '90, and he was very impressed. He said this is the kind of operation he did in Indonesia that was going on, but it doesn't have the same impact because you don't have the same human resources that Indonesia had nor that kind of analytical work which had gone on. But you had the military running there which was unstable. They had made promises. You have the other problem of religious and ethnic tensions, a very complex country to manage. The political economy is so complicated that you essentially have three or more countries there living together by force.

I am very impressed with Mr. Babangida, what he has done, but there's a kind of problem which is not that easy to solve in four or five--it will take time. But he has to continue, continue to create a nation out of it, and he can.

Now, Nigeria has one thing going for them that, you know, when [*Yakubu*] Gowon after the civil war marched into Ibo territory, he says, "No victor, no vanquished." He tried to nurse back a nation, and they have attempted to do that. It was post-civil war in the '70s Nigeria behaved unlike any other country in the sense that it got together. Babangida has attempted to continue that, but then, as you know in '90 we had the coup in which essentially they wanted to separate, and that force is real. Those forces are still there in terms of parties.

So if you're a country in which those kinds of centrifugal forces exist, it is not a five-year problem. One has to continue to pour into education, resources into education and infrastructure, and have more mobility and have a society which talks not about division but--that leadership they haven't got right now. Now Babangida will leave in a few months. We'll get civilians. They're spending a lot of money to get elected, so you'll have the same pattern possibly repeat in which the investment they are making now into election will translate into corruption, and you will have the army come back. Now, that is destructive, but that's what I see right now.

LEWIS: Let me ask you, to get it straight, just what was distinctive about this adjustment operation. In the first place, the Fund was not involved. Is that right?

HUSAIN: They came—followed . .

LEWIS: Followed, didn't put their stamp on it first.

HUSAIN: That's right.

LEWIS: And then you say that Ernie Stern insisted that they go for a major [both speaking at once]

HUSAIN: Exchange rate change.

LEWIS: Was that a formal devaluation or a de facto?

HUSAIN: He went through a back route, but essentially the same thing. But he said, "You test the market. So don't play around with option of 100 million. You go for a billion." And that's in fact what they went for. And they were totally surprised when the exchange rate went from 1 to 4.56.

LEWIS: Is it called a SAL [*structural adjustment loan*]?

HUSAIN: No, we called it a trade policy loan.

LEWIS: Right.

KAPUR: A part of that, wasn't that prior to the SAL that they went for the [both speaking at once] market auctions?

HUSAIN: Yes, September, yes, September '86.

LEWIS: So they made their bet before the trade policy loan came out.

HUSAIN: That's right, yes. It was September 21 or so they went for it. It went to 4.56. They were shocked but didn't back off.

LEWIS: So it was sort of their design formally speaking and . . .

HUSAIN: Oh, yes. We worked with them in a sense, but it was Ernie Stern who did unlock that, I am totally convinced. Without that kind of, that particular set of meetings, that particular meeting, President Babangida would not have been for it.

LEWIS: Was this in about April of '86?

HUSAIN: March '86.

LEWIS: March. He didn't come to a meeting at Princeton University because he said he had to go over there and see the president.

HUSAIN: All right. There you are. And that was a very important meeting, yeah.

KAPUR: How do you see this incident, and how do you--your earlier thesis that the Bank lacked leadership in the '60s and '80s and also was not a sort of an ideas institution, if you look at your sort of Nigerian experience, it seemed to have the leadership, it seemed to have some ideas.

HUSAIN: Okay. Look, global leadership is one thing. Idea leadership solving a little problem is another. Of course, we are solving all kinds of little problems all the time, but that's not the same thing as an institution making an impact. I mean, if you make a good project in a small country, it's a major change for that country. If we can convince a couple of people to go for primary education and that program takes off, that's an impact which lasts for some time. Those kinds of things are happening, have been happening, but it is not the kind of thing which one will relate to what we were doing in the '50s or the '70s. It is not the same thing.

In Nigeria, again convergence of circumstances. Let's say you take, put another team out there. It won't happen. And you don't have an Ernie's confidence sitting there, it won't happen. You have too diplomatic a man going into that meeting, won't happen. And he knew exactly what he wanted. He also knew, unlike many other, that without the

exchange rates adjustments everything else is irrelevant. I mean, the other part is fine-tuning, and he took a stand.

WEBB: If Ernie had gone to the Ivory Coast, do you think he would have a different . . .

HUSAIN: No, because, there again--see, here with the French we have again not established the kind of leadership that we can. It took us so many years, about now, to come to terms with that idea. He would have backed away probably, not faced it, because it was not then Babangida. It would be the French government, you see. McNamara would not have done that.

LEWIS: He wouldn't have backed away?

HUSAIN: He would not have backed away from the French government. He would have said, "It's a problem." He'd tackle the problem. He'd take his time. That's the hypothesis I have, but I think that's what he would have done. Now, if that is a development issue, then we take them on, creates the conditions. You know, he told me, McNamara, that when they started getting the resources for IDA, he had to do a lot of planning about who speaks first, who comes to the meeting, how you energize the meeting so that you maximize, you know, even the sequencing of the speakers. All that is that kind of thing which promotes it. It's not automatic. You know, you look outside. You saw how it happened.

We did the same with Nigeria. Nobody would look at Nigeria, but when we managed this consortium meeting, it was incredible amount of work that we did outside, going to countries, convincing, explaining. I had to come and speak here, the U.S. government and very large attendance, Canada, Saudi Arabia, Rome. And Caio [*Koch-Weser*] would go to Germany, tell them. Then in the consortium meeting we have the sequence so that the guys who were convinced speak, carried them along. All that kind of engineering makes a difference. Now, once they had a successful, they went back and they felt good. And they liked to play the tapes in which people are praising them back to their president, to their people. Those kinds of things make a tremendous difference.

LEWIS: Now, do you have a sense that there is a lot of variance in the capacity or the willingness of the top management to do this kind of thing?

HUSAIN: Yes, we had to engineer that with, for example, Mr. Stern, but, of course, because it was Nigeria he would do so. But he, being number two, can't give the kind of lead one has, the need for in an institution like this. I mean, it has to be number one who provides the leadership. Number two, he remains a technical guy, is seen as a technical guy, as somebody's operation and so the [all speaking at once]

LEWIS: And the number ones since McNamara have not been willing to do this kind of thing?

HUSAIN: Not in my experience. I mean, it's pretty obvious that---again, I mean, it depends on relative capacity. If you have the Fund being led by a more powerful guy, then they fall back. And then we had somebody who didn't understand development issues in the early '80s, and the second one was more political so believed in compromise. And if you believe in compromise, it is the lowest common denominator where you settle.

LEWIS: How about the current fellow?

HUSAIN: The current I think is focusing more on internal issues right now. I don't think he's . .

LEWIS: Within the Bank?

HUSAIN: Within the Bank, and that is not the set of important issues which will take the institution anywhere. We need--two things which are very important which are worth remembering. Both McNamara and Black came about 51, 52 age.

LEWIS: Yeah, yeah, yeah.

HUSAIN: And this is a central factor.

KAPUR: In terms of their energy which they brought?

HUSAIN: Absolutely.

KAPUR: And the current president is . . .

HUSAIN: All of the others, if you come late, you don't have it.

LEWIS: You mean in your sixties.

HUSAIN: Both of them were 50, 51. Of course, the background, the fact that they were Black and McNamara. But that age is not an unimportant factor if you want to energize an institution. You see that, in fact, with [William J.] Clinton, you know. You have to energize. But look--but McNamara is different. Even now at 76 [all speaking at once] he looks ahead.

KAPUR: How do you—you sort of—on the issue of internal matters (that was one more reason why we came here) was the [Willi W. A.] Wapenhans task force report, a sort of a singular internal review of what has been happening, and your paper, the SAL [inaudible] I was wondering, some of your comments are rather blunt and quite pessimistic about the way the Bank has gone about--how do you sort of see that? I mean . .

HUSAIN: Okay. There I say it, and I put my neck on the line. I haven't been fired so far, all right. That is what I was saying, that at least in the micro environment that the institution has provided so far, no limits. My own capacity is limited as so many other staff members. So you can say those kinds--I doubt if you can say those kinds elsewhere. So in that sense this institution is wonderful, right? The effect of it is very limited, okay. Again, now we need leadership at the top. Having done so, there is a--if you want a culture change, okay, the culture change cannot happen if you have too many objectives and too many directions.

LEWIS: Right.

HUSAIN: So it has to be unimodal almost, not bimodal even, unimodal, that this is the direction we go, and the trade-offs are very clearly understood. You have one objective at the top, and that drives the criteria by which staff at the bottom choose. That is not happening. Look at the proposed response to the Wapenhans report from the central departments, okay? Rationalization, either we are doing it or we shall do it. That is not going to solve the problems.

KAPUR: I was wondering if you could sort of perhaps reiterate for us what you saw as the central issues in looking at these reports. I guess it's not always easy to bring out everything written. What did you sort of see in the whole supervision and how the whole SAL thing--I mean, is it the same--was it your feeling a lot was money-pushing? It comes through that . . .

HUSAIN: Central, I would say that primary driving force for SALs was to pay off debt of creditor countries and postpone the problem to next year. Meanwhile, buy something which you can rationalize. That's how it was done. It was not driven by . .

KAPUR: A policy change, per se.

HUSAIN: That's right. You understand. And that's how it is. Next year to satisfy the Paris Club or how to hold the London Club: Have we done this? Do we bridge financing to finance this? That's how it was done.

KAPUR: Yes, I just looked at the Cote d'Ivoire, the whole of '80s, was very strong. What was your sense of the quality of sort of the homework behind the scenes?

HUSAIN: Limited, very limited. See, you asked the question that we choose a subset of policies which you design in the matrix, as saying, "This will cause those kinds of effects on your export earnings, on your growth rate, on something else." All right? And you run it through Ramsey models, et cetera, which are consistency models. Right? You don't factor in behavioral change. You have no idea about behavioral change. You hardly have any empirical backing. You can't get commitment in. You can't factor in random events of the external world. You don't focus on institutional capacity because that's the one way you can handle it, that is, if you have domestic commitment and domestic capacity, as the terrain changes, you adjust. That's how you do a structural change, and you have

appropriate appreciation of the gestation period and the links. So you take complementary action. You have reasonable estimates of the gestation period. You have done enough homework and therefore convincing because you need to create constituencies in causing the structural change to take place. You are taking from some, giving to others, and you have to manage that kind of process. Our analysis, you say if you have public expenditure rationalization and some price changes or exchange rate where you compromise, that is on the input side. Then output, you basically always say good things, that GDP will grow, exports will grow, et cetera, but no links. And internal reviews pointed that to people, left, right and center. Of course, the brave would do so.

I mean, Ivory Coast, the first one, I said, "It is not connected." And at that moment it was the director acting as our VP chair. They, of course, ignored the comments. So I would say there was no analytical underpinnings because these essentially consistency models which, whatever assumptions—you know, let's say you have an investment program, okay? And to the extent you say from the macro to the composition and the assumption about complementarity and appropriate movement over time, those assumptions can be anybody's guess. So you say, "Okay, these are what we'll do." And if they are compromise solutions, you don't even know if they are the right package, assuming you knew before. But you know, to take it through the system, you say that should happen. That's how the analysis was done, largely, in some cases a little bit more, but . . .

Of course, the capacity to analyze or the instruments to analyze also do not exist. It's not easy. But in any case, we didn't do that kind of thing.

WEBB: I have the same sense about this as you. But what I find harder to understand is you find some people who see this in a rather Machiavellian way, sort of accepting the cynical in that sense, but saying that the greater good was to keep the system operating, save the institution. And so you go through essentially kind of a window-dressing exercise. But there's another extreme. A lot of people who really, I think, believed that this thing was going to work, and then you find a lot of in between. But how do you see that? What was really driving that?

HUSAIN: I think many of us basically were taking the first group, that if that is all that is practical, then at least we postpone the problem tomorrow. And the older I grow, the more I worry about the capacity and the will to make that kind of a difference in a very inertial world. So you can only solve the small problems. You can't have global solutions. You can't have comprehensive solutions either because you must first understand what is right and then convince other people, and so on. So one way we live is postponing the problem. However, sometimes in that particular process, we make the wrong compromises. That is where the damage comes. So you cumulate a problem. If you do proper analysis, at least you know what the trade-offs are, and that is where I think our analysis was more weak than it could have been. On exchange rates, in many particular situations the compromise was the wrong thing to do, okay? And often we did that.

KAPUR: Was it entirely due to the Bank, or was it here because the Fund refused to go along?

HUSAIN: It doesn't matter, because we are interested in development issues. Okay, so we take a fight with them, and that is how it should be raised. It can only be done if you do it on analytical plane. If it is opinions of economists, you'll carry no water, and they are a more powerful institution on those subjects—well, even otherwise. So that analysis was missing.

I mean, for example, why this or that particular points package is better, if you analyze--and even going a little bit beyond, you know, pure arithmetic onto some envelope calculations, bringing less of distribution. How are we doing? Say, if you have borrowed the *[inaudible]* and now we were just coming to environment meeting. So you make your policy impact on the environment. All right? Nobody ever did that. Or we talk a lot about poverty. So you raise prices left, right, and center. And so you wreck economic crisis. It has consequences for the poor. Nobody did that. Okay, we did lip service about social damage through adjustment or something like that. Even today you are not doing that. You have poverty assessments as requirements, but you take those energy policy--so now we have handled *[inaudible]* or some kind of social protection policy but again not what is an appropriate level or affordable level of social protection policy. What does it do to our expenditures overall? And again that kind of analysis is less--I mean, more and more of it is happening but not--I mean, that was not certainly happening in the '80s.

LEWIS: It seems to me that in order to press this issue you have to decide whether your motivation is a cosmetic or cynical one to move money and create a proper image or whether you really are interested in pushing development and, if the second, then what is the nature of the weakness of the analysis? Is it because you didn't have enough bodies, enough people doing it? Or is it because the data weren't available, or the models were too badly flawed, that there was insufficient attention to the political dynamics that were involved in the countries and people sort of standing back and--what, what—was there any sort of . . .

HUSAIN: You know, the data and the analytical model should be a problem of six months, one year, but not ten years.

LEWIS: Right, okay.

HUSAIN: I mean, one has to address that. So it is essentially driven by: Do we really know what our mandate is and are we going for that? Who is our boss in effect, if I can be cynical but attempting to be factual? If we are essentially saying that the votes of the powerful shareholders count more and the Paris Club is far more important than development, then you'll choose one kind of route than otherwise. Now, I think, observing behavior of people, is that Paris Club was more important, the Fund was more important, than the cries of the developing, those people. Now, although people rationalize that these people don't do anything, they are into this mess because they didn't do a couple of things; therefore, you turn this screw on. That kind of framework.

Data? It always will be scarce and will not always be able to trace, but if we do even serious or half-serious alternative analysis, we can learn much more for debate and dialogue for choice and then, of course, build in flexibility for correction. And that is a solution to answer [*inaudible*] and the lack of knowledge. [both speaking at once]

KAPUR: But I suppose [both speaking at once] that you very rarely see. I mean, just take Rwanda, Burundi. The Bank is always so precise on every figure, and it is always curious that how the same countries which are claimed to have no institutional capacity for anything always have the institutional capacity to have precise figures.

HUSAIN: Okay. There you get the answer that it's either a lie or--well, it's a lie, in effect. One, in a world in which you don't know instrument outcome relationship even theoretical because of the number of variables involved and, two, the fact that you have a residual there and in this situation the outcomes, even if you knew, would have a looser limit.

You talk about precision. The only answer to questions like that as happens in developed countries, you say, "Okay, we will watch, and we shall change." So you have recursiveness in your decision-making. And you own it. And you observe. Then you create system by which you observe. Now, you may badly design them, but that's how you handle uncertainty, and you move along. And in that process you develop the data. You then also develop leading indicators in some cases and begin to address some of those issues. Of course, you won't solve those problems but begin to solve them.

I was told by people in Nigeria that when we say no, initially it hurts, but they respect us for that much more. And then he was saying--talking about your earlier question about what is happening to the institution, it varies from country to country because it depends on who is working where. But when we go into the compromise mode for either one set of objectives or another, we lose credibility. And we have lost credibility. For that reason--and another reason is that our technical strength has come down, technical qua technical.

KAPUR: Which means especially that affects sector work?

HUSAIN: Well, the real development work, you know, because economics will operate around, you know, real phenomena. So--but people now say that, "Look, the kind of work we do is very different. We don't really need any specializations for that." If you deal with sector complexity or sector macro linkages, et cetera. However, I mean to the extent production activity is still taking place, you know, in a certain way, if you can impact on that, you have a, you have a different--but that capacity we have definitely lost. And if you examine--and this is what [all speaking at once]

LEWIS: Which kinds of skills? Engineering?

HUSAIN: Engineering.

LEWIS: And agronomy? Agriculture?

HUSAIN: Well, agriculture we have lost; water we have lost. Power engineering we have lost even in the new discipline; front-line capacity we have lost. I mean, you look at our technical manpower and put them in dialogue with front-liners outside, they will be lost. They will know a lot about our procedures and procurement, but not about engineering. Some of our new intake on the technical side, the environment, may know what is happening on front line, but of all disciplines are very weak.

LEWIS: Is it because of a lack of field experience?

HUSAIN: Well, you see, if you get into the Bank and there is no real planned retooling or self-retooling going on, you get absorbed into what goes on here, which is a review, not, you know, not real experience. So the institution has failed in that sense, of keeping its human resources, or a proper infusion of them so that either by osmosis or—that the old disciplines are very weak right now. I mean, if you do talk to the people around here who are coming from the old [*inaudible*] their capacity is not frontline, and that also affects us in terms of engaging in dialogue with countries, particularly middle-income countries. And the new disciplines on the environment area, maybe in the health and other maybe a little bit better, but not really. Power engineering not, water engineering not, and so . . .

KAPUR: So the core infrastructure sectors.

HUSAIN: Weak, very weak now. Very weak. And that affects the way we dialogue now. So the coercive power of the Bank then is used to enforce rather than the knowledge power of persuasion, which, if I go back to the work that I used to read in the '70s, a different kind of analysis--I did go back to look at Indus Basin works or the work on Colombia and other--beautiful work, absolutely.

LEWIS: Now, how do you explain that? This is a very strong institution. It pays good wages. Even if infrastructure is a diminishing fraction of the total program, it's nontrivial. The Bank presumably wants to recruit good people. How does that thing sort of get spiraling downward in terms of . . .

HUSAIN: My hypothesis for that is, again, if we say human resource development is important, then the process of renewal has to be planned. Okay? And that renewal includes, of course, a direct retooling, and that has to be planned, plus infusion of new talent in a fashion in which intelligence is being injected into the body itself. That has not happened on a planned level, okay? Both of them have not happened on a planned level. Our economist and non-economist ratio has gone out of control. The regional composition of these skills is not appropriate. Excessive reliance on consultants without absorptive capacity has led to those kinds of.

So why? It's because we are a monopoly. Had we not been a monopoly, we wouldn't have survived our change. As Mr. Ducksoo [*Lee*] was writing a week ago something

about IBM and others, at the moment there is a danger, I feel, that we may be focused on the unimportant and may become marginalized and irrelevant by the end of this decade as an institution because of what is happening globally and not tuned in to it.

KAPUR: But insofar as you say that, then perhaps the current focus by the Bank's sort of leadership, the focus on the internal factors which looks at recruitment, looks at these sorts of things, might well be the first . . .

HUSAIN: Unless you have a pull effect that we're heading somewhere and you have a sense of pride, you will have a problem with recruiting talent, okay? But also how you look internally also. I mean, you can look internally to say we have looked, or you can go through the motions, which is bureaucratic of looking but not doing anything about it. But unless you have that sucking effect which is the institution is going somewhere, solving big problems and people proud of that, that internal effect will not be.

So I will make two assertions. One, I would say that leadership remains important for the institution to continue to grow, because it is far more than what we have in our brains, but you know how we drive ourselves and how we go the extra mile, et cetera, which counts. But also this internal process of looking right now, it is, so far as I see, bureaucratic: taking and doing Wapenhans report, it is bureaucratic. I mean, if you go for culture change, it has to be unimodal and it has to essentially say, "This is what we value now in the next five years," and we change. We focus on training in a substantive sense. We focus on human resources in that substantive sense, and we become more mobile, less hierarchic and less bureaucratic organization. All of that is still in the works.

We are, in the Region, attempting to play with this because he believes in it, and we are succeeding a little bit. But without the central support, it can't, because it's an institution in which one region can't go on its own. But the . . .

[End Tape 1, Side A]

[Begin Tape 1, Side B]

HUSAIN: . . . but we have been hardly used for the--just talking about the limited area of Wapenhans.

WEBB: As one part of what's going on now, there's been an apparent rediscovery of the centrality of poverty, particularly since, with *[Barber B.]* Conable, and made evident just in the *WDR [World Development Report] 90* and the handbook and the procedures for poverty assessments and the OD *[operating directives]* and so on. There's a sense that the Bank has come back to this and that it's, at a rhetorical level it's continually present. *[Lewis T.]* Preston is always saying that number one is poverty. How do you see all that?

HUSAIN: On poverty I see more seriousness. On environment I see more seriousness, I mean, beginning with President Conable. On women I see more seriousness. I mean, that has gone on, and in that sense President Conable really believed in some of that. The enforcement again is coming from the donor side, you see, because it is linked with IDA.

So we are requiring poverty assessments, we're requiring environment assessments, okay? But simultaneously, unless middle management watches, you still have the strategy that has been going in *[inaudible]* only.

WEBB: What's that?

HUSAIN: The sector, let's say macro policies which are essentially being driven by the stabilization objective, not taking these into account. There is this ongoing. So if one is concerned, then that ought to factor in very centrally. It ought to influence the design of our adjustment programs or the policy advice we gives, particularly on pricing or expenditure policy, but particularly on pricing. But there is more seriousness now on poverty and on environment, certainly, and seriousness than I would say there was in the mid-'80s.

WEBB: Do you see trade-off occurring, so that in the design, poverty is gaining weight versus . . .

HUSAIN: No, I don't see that. I mean, for example, the poverty *WDR* and the handbook, okay? Now, I don't know if you have read the handbook or not, but it is not properly a handbook. It is some collection of things which have been done. It was written to please the Board *[of Executive Directors]*, okay? And then the OD. Now, if you look at the OD, there was debate in the Board. The special question was, "If there is a choice between distribution and efficiency, let's say, what would you choose?" And the OD says it's always going to be a win/win situation. You're never going to have a trade-off.

LEWIS: That's an old McNamara doctrine.

HUSAIN: Well, so--but distribution is important, and poverty may require in many cases distribution.

Yesterday we were looking at one energy adjustment loan. The whole IM *[initiating memorandum]*, which was about to go to the Loan Committee, came here, and it had nothing about social cost of adjustment. So I said, "We have to revisit it," and he sees that. So we revisit that including impact on prices. But this is Ed *[Edward K.]* Hawkins, you know. So if you look at poverty per se, then all designs should look at that social impact.

LEWIS: So you had this Morocco loan last April, wasn't it? That's very poverty-oriented, I thought.

HUSAIN: Well, it says a couple of things which are there, but in terms of designing, well, trying to study what the impact would be, okay, but if you look at it in terms of whatever they were prescribing, the effect of that on the poor and whether something could have been done, either as compensation policies or slowing down the pace of change. Now, I don't remember exactly what the policy content was because we had just come in there. I was surprised because I thought the reference to poverty was incidental.

LEWIS: The social sector stuff, though, you were going for primary education, primary health. I mean, they are allocating it looked like rather seriously toward the low end on those things.

HUSAIN: Well, you know, that is, 'til it happens and so on, it is still in the future. We have talked, I mean, right through the '80s, the minute surfaced that a stabilization essentially--I mean, that was stated by people—leads to social expenditure cuts and particularly the cuts on non-salary expenditures, all right, we started protecting it. Our investment program--in Nigeria, for example, we shifted our lending in effect to primary education and health areas, et cetera, but we shifted. So we took lending programs through, but it's a long battle for actual incidents to take place.

So I am not exactly sure what is happening in Morocco, but that was a good one. They at least had that explicitly treated.

I'm thinking of compensation programs. If you have a macro policy, they have an impact, and what does one do in terms of design, not just the--that's what I was thinking.

WEBB: Are there--there's this explosion in social sector lending. What do you see driving that?

HUSAIN: That is the focus, especially the emphasis on human resource development. But, mind you, the trade-offs there have to be, do we provide basic services to all, by when, and what level of basic services? If there is trade-off between basic service and higher level service, how do you do it? Is the higher level service market assisted? And rural/urban mixes? Those kinds of things we haven't tackled yet.

WEBB: Do you think that the Bank's difficulties in lending in other areas is partly the reason here and the fact that you can give more for local content, in some cases disburse quickly, although a lot of it is slow. But if the Bank is having difficulty in pushing new dams, for a number of reasons, in other sectors, is that part of what's going on? Or do you think it's essentially that the Bank now has this new concept of development? Human resource investment is no longer a trade-off; it's now the best possible productive investment?

HUSAIN: At least in our Region we are working on strategies which essentially say that human resource development is high priority. So in going through that route rather than through a default route. So focusing more on basic education and basic health and municipal services and so on.

Also, as far as dams are concerned, because of the environmental problem—as you know, there is a dam in Pakistan. If you talk about Kalabagh, if you talk about the energy needs of that country, and the resources, that's high priority. It's not happening because of environment, and that's internal puzzle. Big dams are facing that kind of issue everywhere. We have a dam problem in Tunisia affecting our lending, but in this case it

is more a strategy in the direction of environmental protection and human resource development.

But infrastructure remains important. So we have to lend in that, but there you get into issues which are more complicated on the macro level like power pricing or, you know, things like that.

WEBB: And privatization is also . .

HUSAIN: And privatization, yes.

WEBB: Cutting down.

HUSAIN: Now, there we have to rethink if privatization becomes as large as one is-- that's what I was saying: if we don't shape up, we may get marginalized. We'll have to get into that area of private sector, like the Asian Development already has done. They can lend. They have modified the Articles; we haven't.

KAPUR: I was wondering if I could just go back to a few things that you wrote in the SALs revision report. You sort of warned, to quote the OED [*Operations Evaluation Department*] report about lending to a few countries [drowned out by shuffling papers] It was clear that there was no hope for ownership to the Bank staff and yet the Bank went ahead with the loan anyway. What did you see as the reasons why this fight seemed that and how, I mean, how exceptional was this observation or how common?

HUSAIN: Well, that must be referring to the Cote d'Ivoire operation, right?

KAPUR: Kenya.

HUSAIN: Kenya also, yeah. Well, in those cases it was global politics driving the technical--some technical people are saying the wrong thing to do or this must happen and other people at different levels looking at, even non-cynically, at what is right, deciding otherwise, and putting it through. I don't know how big a problem that was, but in many cases that could be the situation. Now, you may say that in a team you will have disagreement, and technical people will see narrow and other people will see bigger. So one has to look hard. But in those instances it was clearly pointed out as the wrong thing to do in Kenya or Cote d'Ivoire.

KAPUR: In Kenya there were political pressures?

HUSAIN: From inside here or just to lend? [both speaking at once]

KAPUR: From outside?

HUSAIN: Just to lend?

KAPUR: From inside to lend, but because of what reasons? Was it pressure from the U.K.?

HUSAIN: I actually don't remember.

LEWIS: Well, there's a pressure to lend simply to get up to this year's outlays to justify next year's [both speaking at once]

HUSAIN: Well, that is what was driving the Kenya case, yes. In the Cote d'Ivoire it was something else, but in the Kenya case it was lending pressure.

KAPUR: How much pressure have you seen in these cases of the Bank lending to get its own money back?

HUSAIN: The Bank's money keeps coming back except . . .

KAPUR: No, but where it's seen arrears problems and therefore it likes to get its own money back.

HUSAIN: That was not in those cases. It was almost beginning to happen in Liberia and Sierra Leone, but not in many. Now it's beginning to happen in Syria. They owe us money, and we don't know how--and they need us. But I don't know of many, but Liberia and Sierra Leone I know. There was a situation in which even there was a deal is being struck in which we pay and the Fund gets paid, that kind of deal. And [Moeen A.] Qureshi (Senior Vice President – number two in the Bank) had to decide on whether it is a good deal or a bad deal. But I don't know of many instances in which that--but in a fungible money sense, maybe that was happening. Now, as you know, we have a restriction that if they owe to us, we can't take a loan to the Board just to protect against that.

KAPUR: Right.

LEWIS: Well, we should have been here to see you sooner. It's very, very interesting.

WEBB: Exceptionally helpful.

HUSAIN: Thank you. It was a pleasure to talk to you.

KAPUR: I was wondering if we could get the paper that you just mentioned when you started the conversation.

HUSAIN: Okay. [both speaking at once] Let me say this--I can give it to you. It is--I have an article later. I can give it to you if you wish, but I am going to write so that it makes--I was speaking from notes.

LEWIS: Fine, sure.

HUSAIN: But I'll put it together in a sense that it is readable by outsiders, and then I'll give it to you. You can ask me in two weeks or three.

LEWIS: Well, thank you very much.

WEBB: It's a pleasure to meet you.

HUSAIN: It's a pleasure to meet you, too.

[End Tape 1, Side B]

[End of interview]