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**ALEXANDER SHAKOW**

*Interviewed by: W. Haven North  
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**INTERVIEW**

*Q: How many years did you work with the U. S. Foreign Assistance Program?*

SHAKOW: How many years was it? It was 19 years, including five years with the Peace

Corps and 14 years with AID, so, I guess technically only 14 is the right answer.

*Q: And you left AID what year?*

SHAKOW: 1981.

*Q: I see. And that's when you moved to the Bank?*

SHAKOW: I came to the World Bank in 1981. I've actually been at the World Bank longer than I was at AID. Hard to imagine.

### **Early years and education**

*Q: Right. Well, let's start out with a bit about your early years and background. Where did you grow up and where did you go to school?*

SHAKOW: Well, I was born in Boston, Massachusetts in 1937, and was brought up on the grounds of the State Mental Hospital in Worcester, Massachusetts, where my father was a psychologist. I've always been able to say that explains any aberrations in my behavior! We lived in Massachusetts for the first eight or nine years of my life, then we moved to Chicago and spent another eight years there before moving to Washington in 1954. At that time I went to the University of Chicago Lab School, and then the first two years of the College after the tenth grade — the last grade at the lab school. So I had a wonderful education in Chicago. Then we moved to Washington and I went to Swarthmore College at that point, and spent four very enjoyable years at Swarthmore.

*Q: What was your major?*

SHAKOW: I majored in History with minors in Political Science and Literature. But I decided that I wanted to see the world, and the easiest way for someone who was not very good at French was to go to London. I went to the London School of Economics and decided there to do research on the links between U.S. foreign policy and economic development.

*Q: Why this move to go overseas? Why did you want to do that?*

SHAKOW: Just because I hadn't been overseas and wanted to see a little bit more of the world. My sister married a Britisher and had gone to England in 1952. She was in London at that time, and that was another incentive. It was not quite so common in those days for young people to have seen much of the world, and since I missed out on the army; this was an opportunity.

*Q: Did you have any professors who were particularly influential?*

SHAKOW: Oh, there were a lot of terrific professors at Swarthmore, but I don't think any of them particularly led me in the direction of economic development. Certainly there

was a worldly sense about some of these people. Claire Wilcox was a wonderful economist and teacher, and there were others who were terrific in history. I remember taking a seminar on the British Empire, which focused on British colonial rule in Africa. The seminar program at Swarthmore in the final two years was a great opportunity to explore issues.

### **A doctoral program and thesis on U.S. Foreign Assistance to Indonesia - 1958 -1962**

I think I just kind of fell into some of these things. My family was not particularly oriented towards international affairs, but it did seem that there was a big world out there and that maybe I ought to learn more about it. So, at the last moment the London School of Economics seemed like a good place to go. I started there working on a Master's Degree, which is the way you start at LSE. At the end of that first year, I decided to go for a Ph.D., and was accepted in that program. It was a very kind of mature setting in London. Most of my friends moved on to graduate school in the United States, which returned them to large lecture courses. I immediately fell into, at LSE, rather small classes, and they were quite international, at least to some extent. For example, I went to an economic development course taught by David Knox, who I think you know well. He later became the Vice President for Africa of the World Bank; he was very knowledgeable, and, I guess, was at one time in charge of Projects at the Bank as well. He was my first professor of economic development. I admit I was a bit put off when I went to my first international relations seminar at LSE and found that about 19 out of the 20 people there were from either the United States or Canada. But in the David Knox seminar there were, I think, about 30 people and almost as many countries were represented.

London was a wonderful place to meet people of all nationalities. Some of my closest friends were Indians and people from other parts of the world, including several from Indonesia. I decided at the end of that first year I would work on an issue that brought together United States foreign policy and development issues — that subject was the U.S. foreign aid program. And so I began reading and determined that what I needed to do. Just like most Ph.D. students taking on a grand subject, this was a comparative study of foreign aid and its impact on five countries: India, Ceylon as we called Sri Lanka in those days, Burma, Thailand, and Indonesia.

*Q: What year was this?*

SHAKOW: In 1959 I began looking at this subject specifically. I had a wonderful professor and tutor named Martin Wight, who later went on to help found Sussex University. He and Hugh Tinker, a professor at the School of Oriental and African studies, ultimately became my supervisors for this dissertation. It soon became quite clear that to know the proper role of foreign aid in a country, you really needed to know the country like the back of your hand; to do a comparison of five different countries was ridiculous. So I gradually began to reduce the number of these countries. I dropped India because everybody in London was studying India, and so it seemed especially futile to be

concentrating on that area given its size and significance. In the cases of both Ceylon and Burma, there were peculiarities that made the story of U.S. foreign aid a bit unusual. In both cases there were expropriation issues that ended the aid program, for reasons that had nothing to do with substantive issues of foreign aid. Thailand, interesting though it would have been, was an aberration as it had never been colonized, and so it seemed too atypical. So there I was, looking at a map; Indonesia was far away and very big and very important, but also very understudied. Particularly in London, there was nobody who knew anything about Indonesia, which was another advantage! If you're doing a Ph.D., you always want to find a subject that nobody knows much about.

*Q: Right.*

SHAKOW: So, I decided that that was what I was going to do was to concentrate on Indonesia. For the next months, in addition to beginning to learn Indonesian by studying Malay at the School of Oriental and African Studies, and reading a lot, doing research at Chatham House (the Royal Institute for International Affairs) — especially looking at press clippings collected there over the years, I did preparatory work for a visit to Indonesia.

*Q: You narrowed it down to one country?*

SHAKOW: I narrowed it down to Indonesia. To understand the proper place of foreign aid in a country, you need to know the country very well. So studying the U.S. aid program and its history, and also trying to get closer to Indonesia, I traveled to Holland several times to look through material there, where of course there is much more about Indonesia. I did, at the very end of 1959, go to Indonesia. I arrived there, without any clear plans as to how I was going to survive, but I was tired of waiting to find outside funds to get me there so I managed to go out on my own. I then received a scholarship there from a foundation, an Indonesian foundation whose resources came from an Indonesian national lottery. Its foundation provided some graduate students with grants.

There were two other Americans studying there at the time, one a scholar who was supported by the Ford Foundation, and the other - Dennis Brennen - who later became an officer of AID also had a grant from the same foundation, Siswa Lokantara. And at that point, at the beginning of 1960, most foreigners had left the country. The Dutch left because of the deterioration in Indonesian relations with the Netherlands over West Irian. My scholarship provided enough money for me to rent a room with an Indonesian family and to buy a used bicycle. The foundation also gave me enough material so that I could get a couple of pairs of khaki trousers made as well and a couple of short-sleeved white shirts; I had enough money left over each month to get a haircut. That was how I got started doing my research on foreign aid in Indonesia, which ended up being a dissertation that covered the period from 1950 to 1961. I ended up doing a lot of research in Indonesian, both in talking to people and through the use of the libraries and press clippings and other resources at the Ministry of Information. So, that was my dissertation on U.S. foreign aid in Indonesia.

*Q: Was there, in a nutshell, any particular theme or main message?*

SHAKOW: I also did a short introductory chapter that dealt with the unique role played by an American entrepreneur, Matthew Fox, who had been in the movie business but became very enamored of Indonesia in the period between 1945 and 1949. He was not of the Fox movie people but other movie people, and he thought himself to be the savior of Indonesia. Many Indonesian leaders at that time were supported by private monies brought together in an effort to strengthen the role of Indonesia, both at the United Nations and elsewhere; some interesting stories came from that. But between 1950 and 1961, there were a lot of ups and downs in Indonesia's relationship not just with the United States, but with the Russians as well. One of the themes that goes through this report is the interesting role of aid from communist countries. One of my best sources was Russian who was introduced to me by a mutual Indonesian friend. This fellow's name was Aleksander Ushakow, spelled the same way as my name, but with a U in the front of it. Coincidentally, he was also doing a dissertation on the role of aid in Indonesia, in his case of Russian aid. He was doing it for the Moscow School of Economics, while I was doing mine for the London School of Economics.

*Q: I see.*

SHAKOW: But the great advantage was that he was working for the Soviet Technical Assistance Team. Every week he would come and pick me up, and his wife, who spoke no Indonesian or English, but was a wonderful cook and hostess, would cook excellent meals. While her husband and I had arguments about the Hungarian uprising and the role of the Soviet Union and so on, each time knocking back shots of vodka, she was cooking! When things got too hot and heavy on the political subjects, we would shift to what he would describe as "our mutual scientific interest," which was the Indonesian economy. He would constantly tell me how terrible it was and if the Indonesians would only do what was done in Russia, then everything would be fine.

*Q: He was very communist?*

SHAKOW: He was, but he never tried to proselytize me. It was just that, I think, he also found it fun to have an outlet of this kind. So we had many interesting conversations, and I learned a lot about the Soviet technical assistance and Soviet aid programs, which at that time were very large. (I don't think he learned much from me.) This was the time that Sukarno was looking to the communist bloc for help and assistance in building of stadia and big steel plants and everything else. Just to describe the difference in the programs, let's contrast it with what happened in the U.S. aid program. When I got to Indonesia and started my research in 1960, there were about 300 Americans working with a budget that was about 25 million dollars in size. AID was in every possible sector; it provided much support for participant training and that kind of thing, which was probably the most important and useful program AID carried out.

Ten years later in 1970, and this time I was working for AID -- we had a 300 million dollar program with only 25 staff people, so it was a complete reversal during that period.

Of course, the difference was that we concentrated on technical assistance in the earlier period, with university programs in nearly all fields. By 1970, having been through that period at the end in the middle '60s, when we closed down the AID program, AID moved in much more forcefully with balance of payments support and PL480 food aid, and so there was a different kind of program.

*Q: We will come back to that, but at the London School was there a particular philosophy or view about economic development that they were teaching?*

SHAKOW: No. One knew of Laski, and so on, but Laski was gone by the time that I got there. And so it was not ideologically rooted at all and basically for me it was an exposure to people like David Knox, and others, who were very professional and very open. These were some quite conservative professors there, as well as others. The image one has of LSE was drawn from the Fabians and Laski and so on, but I didn't get that sense at all by 1958. Some of the most important professors, I think, were in fact quite conservative. When I went to Indonesia it was the first trip living broad other than in London; it was very much a *tabula rasa*, and I had no prefixed ideas as to what was going on. So my dissertation is really a history of the AID program and of the comparisons with the other aid (Russian, etc.) and what was effective and what was not, based on judgements of both the Indonesians and others. One thing always struck me about the participant training program, which, as I said before, was the most important AID activity. When I asked Indonesian bosses of these trainees, "Are you going to make sure they get into a job at a higher level to take full advantage of these programs and all that they've learned?", the bosses would often say they certainly couldn't give them a promotion or a separate job, as they'd already had the special benefit of being given an opportunity to go abroad. Unlike today, the exposure of Indonesia to the outside world was minimal, and the amount of information they were able to obtain in Indonesia was limited. The Sukarno regime tended to be quite hostile to America and many other parts of the world, except for those Sukarno called his network — North Vietnam, China, Russia. But when these AID trainees went abroad, at the very least they came away with a vision that was so much more expanded. There was the excitement of seeing a world that was very different. I think that was probably the most memorable impact of the AID program.

*Q: My impression is that the numbers were quite large.*

SHAKOW: I don't remember the numbers offhand, but thousands were sent abroad for training between the early 1950s through 1965, when the program closed down.

*Q: In all fields?*

SHAKOW: In all fields. University programs had been set up, particularly in medicine at the University of California; in agriculture with the University of Kentucky; and engineering, I think that was also the University of Kentucky, at Bandung Institute of Technology. These were key links to American universities. In addition, some people were just sent through regular programs and places in short-term courses elsewhere. We

also were doing much more, especially as at that time Indonesia was just beginning to get exposed to these things. The famous Berkeley “Mafia,” on the economic side, were actually prepared by the Ford Foundation.

*Q: I had the impression that the Indonesians who went overseas returned home more than those from other countries. Was that true? Why is that?*

SHAKOW: That’s absolutely right. AID often had big problems with many nationalities wanting to stay in the United States; most Indonesians went home. Life in Indonesia is just, in a sense, easier for people who are not wealthy. Indonesia is a beautiful, wonderful, fertile country; if you throw seeds out your back door within a couple of days you have a big papaya tree growing. There is something wonderful about that, plus a fairly strong family system. So, culturally, I think it was important for people to go home. I don’t know that anybody can ever tell you exactly why that was, but it is certainly true that you did not get large numbers staying. Even here in the World Bank now there are relatively few Indonesians. Partly that is because many of them, when they went abroad, returned home rather than staying. They didn’t get exposed to the same kind of pressures.

*Q: Well, was your thesis published? What happened?*

SHAKOW: I left Indonesia at the end of 1961, having written a first draft and even a second draft, of the dissertation. I knew that if I stayed on in Indonesia, and there were plenty of opportunities to do so, if I wanted to, that I would never finish the dissertation. I knew too many people in that situation. So I finished the dissertation there, took it back with me to Washington, did some additional work here on the AID program and then went to London. In the summer of 1962, I finished it up and received my Ph.D.

### **Returned to Indonesia: Peace Corps Director - 1963**

I returned from Indonesia in 1962 at about the time that Sargent Shriver, the Peace Corps Director agreed with President Sukarno to open the Peace Corps program there. This was seen in Indonesia as a favor from President Sukarno to President Kennedy. It was in response to the favor Sukarno thought Kennedy had provided by helping convince the Dutch to give up New Guinea, or what is now West Irian, to Indonesia, the one last remaining portion of the Old Dutch East Indies. When that arrangement was settled by the Dutch and Indonesians, under pressure from President Kennedy, the Peace Corps was invited to come to Indonesia. So I came back and was the first staff member hired for the Peace Corps Indonesia program.

I spoke Indonesian. I knew the people who were the Indonesian counterparts for that program in the Ministry of Foreign Affairs. So it was a natural for me, and I was very excited to get that job. After several months in Washington, I went out early in 1963, to prepare the ground for the Peace Corps volunteers due in April. And in 1963 or 1964, to answer your specific question about the dissertation, the Japanese were just beginning to make more serious efforts to work with Indonesia. They had enhanced their own staffing and their embassy to look at development issues. One of the officials of the Japanese

embassy, whom I met, knew about my dissertation. He asked whether they could publish it. So the Japanese published it for their own purposes, their own staff. They took it, retyped the whole thing and published it in a limited number of copies in English, and translated it as well into Japanese. So, in that form its available on microfiche. I always thought I would revise the text and get on with publishing it myself. Well, as you can imagine, starting work for the Peace Corps and then going from Peace Corps to AID five years later, there was no chance to do that. So it still sits there as a project for my retirement.

*Q: Is there a summary that we could use as an annex to this thing?*

SHAKOW: I'll try to find one you can use.

*Q: Good. You went out there with the Peace Corps in what position?*

SHAKOW: I was Associate Peace Corps Director and opened the office in Indonesia. That was a very exciting, interesting time. The then Director of the AID Office for Indonesia, David Burgess, was selected as the first Peace Corps Director for Indonesia. He came out a little bit later than I did. But after about six months, because his wife became ill, he had to go home and so I then was Acting Director for quite awhile. Then Shriver sent out another Director, a man who had been a Peace Corps Director in Latin America; he was there for about a week or two. He thought this program didn't adequately resemble the program he led in Bolivia, and so he sent a message to Shriver to the effect that "I really think this program ought to change, and it ought to reflect these following characteristics — and if you don't agree with me, I'm not the right person for this job." Well, it turns out they didn't agree in Washington that those changes should be made. By then they decided it was a little bit difficult to keep sending out new Directors, so they made me Director of the Indonesian Peace Corps program. So for two years, essentially April 1963 to mid-1965, when we closed the program because of the difficult political environment, most of that time I was either Acting Director or Director. That was probably the best job I ever had.

*Q: What were the characteristics of the program during that time? What were you doing?*

SHAKOW: Because this was the time when President Sukarno was engaged in confrontation with Malaysia, a real struggle against what he considered to be the colonial efforts of the British and others to impose their will on Southeast Asia, it was a very sensitive time politically. We had been asked to send in, initially, 200 university professors but the decision was made it would be too sensitive to put social scientists into the universities. So, instead, we chose what we thought was going to be the most apolitical of subjects — sports coaches and physical education teachers. We had 49 physical education teachers and coaches, and one teacher of English. In fact, none were actually apolitical. Soon after the first group, President Sukarno pulled Indonesia out of the Olympics and started his own Games of the New Emerging Forces, the so called GANEFO Games for the countries behind the Iron Curtain and elsewhere. Peace Corps coaches and teachers prepared the Indonesians for Games that were really a competitor to

the Olympic games.

The 50<sup>th</sup> volunteer taught English at the Ministry of Foreign Affairs, our main link to the Government of Indonesia. The Ministry staff needed to speak better English. I was always pleased that the U.S. Congress never discovered this, as it would look rather strange that we were helping the Indonesians to improve the quality of English used by Indonesia in their frequent criticisms of United States policy in Indonesia.

The volunteers did a wonderful job. They were spread out all over the country. This provided me with a good excuse to go traveling from one end of the country to the other, from Aceh at the north tip of Sumatra, all the way over to Timor in the East and up to Manado, just south of the Philippines. The one place I really wanted to get to and never reached was New Guinea — now West Irian. But we had volunteers in something like 22 of the 26 provinces. So there was a lot of opportunity to see the country.

*Q: Were they well received?*

SHAKOW: Extraordinarily well received. Not a single PCV went home early which, given the political circumstances, was very interesting — and probably still a Peace Corps record. On one occasion, I went out to “deliver” a volunteer to Capping in West Timor, and arrived to a very cool reception. Normally, a lot of people welcomed arriving Peace Corps volunteers. To make a long story short, it turned out that this part of Indonesia, which is very Christian and quite anticommunist, Chapons and Shakow were part of the group of Czech or other Eastern European coaches that were then coming in large numbers to all parts of Indonesia. The Timorese were upset that the Sports Ministry would send these people from Communist countries to their island. When they found out about an hour later that we were Americans, everything changed and the whole place opened up; I ended up speaking to the local Parliament in Indonesian as well as to major rallies in the sports stadium and elsewhere. So it turned out to be a wonderful reception.

We finally had to pull all Volunteers out in the middle of 1965. Ambassador Ellsworth Bunker, who [was later] Ambassador to Vietnam, was sent as a special emissary by President Johnson to Indonesia to see if the deteriorating relationship could be repaired. One decision made was to pull the volunteers out, since they were usually the only Americans in some of these isolated areas and hard to be protect. U.S. consulates in Medan in North Sumatra in Surabaya on Java, the United States Information Agency libraries — these had all been burned down or closed up by the protests. While our volunteers were protected by the Army and by President Sukarno, but it was a bit much to have Peace Corps volunteers teaching basketball to kids with bayonet-bearing soldiers standing by. So, we pulled them all out very gradually. There was no trouble and every one of those volunteers left with a warm feeling for Indonesian people.

One PCV, whom I thought would last the shortest period of time, as he came to Indonesia as a sort of California beach bum, was assigned to Semarang, in Central Java. He not only did a terrific job working there with the community, but he fell in love with the beautiful Eurasian daughter of the Communist party chief of Central Java! The youth

groups from the Communist party tried to run him out of town, in part as they were so upset he was stealing away the beautiful daughter of their own leader. Signs all over town said 'Crush the Peace Corps,' 'Get Rid of the Peace Corps', 'Go Home Peace Corps', even one that said in Indonesian 'Beware of Bob's Smile'. But he stayed, turned out to be a terrific PCV, and then after marrying this woman, went on to a distinguished career in AID, working in Laos, Pakistan, Nepal, the Philippines and Indonesia. His name is Bob Dakan, and about ready to retire. One of their children, in fact, went into the Peace Corps herself. It's a great story. Sargent Shriver always loved that story - Peace Corps triumphs over the Communist youth groups in Indonesia!

*Q: How would you characterize the impact of the Peace Corps on the Indonesia?*

SHAKOW: It was not in terms of economic development, and the issues with which we have long been concerned; this program of teachers of physical education and sports did not have that kind of impact. There were only 50 PCVs in a country with a population of 120 million at that time. But I think the impact left by these PCV Americans on the people they worked with in those communities was high. They really were often the only Americans anywhere within hundreds or even thousands of miles.

I am still in touch with one former volunteer who is now a Vice President of a fishing company in Seattle. He worked in Ambon — an island in the eastern part of Indonesia. He still goes back there several times a year and is close to the people there. He has arranged food shipments for the Ambonese and helped publish books on Ambon's unique flora and fauna. So there is a lot of impact in terms of human interest. I wouldn't say it had lasting impact in other ways, but it was a very significant influence on these 50 Americans, and clearly on at least the people who came into contact with them. It had a terrific impact on me.

I found that experience to be, as I say, perhaps the best job I've ever had because it involved very direct, very close proximity with government officials, with people in the communities, with our own volunteers. I was also a member of the country team at the Embassy. When the political officers in the Embassy were not able to travel, I was still going all over the country.

*Q: Did you feel the need or the pressure to keep at arm's length from the Embassy?*

SHAKOW: Yes and no. We were not a part of either the Embassy or AID in a formal sense and we had our own offices in a separate location. But we also kept in closed touch. Everybody knew I was part of the embassy team, though, of course, I did not spend time with the CIA station chief on that kind of thing. It really was for me a fascinating opportunity and I think having the Peace Corps there was also very good for U.S. interests. And as we were in the field there were not many overlaps with AID and at that time AID was slowing down considerably because of the political pressures.

AID families were terrific in taking in volunteers in when they were visiting Jakarta. The PCVs were living with Indonesian families all over the country, and when they would

come to Jakarta or Medan or elsewhere, they of course loved the idea of a shower and an American meal. The Americans were just wonderful. Maybe it was because we were such a small group, but we didn't have the kind of antagonism that occurred in some other places where the Peace Corps was very supercilious about AID and the Embassy. There was never any upset on the part of AID and Embassy staff toward the Peace Corps. We had a very close relationship, but one in which each of us respected the others' integrity and independence.

*Q: What was your sense of the AID program at that time? Or have you already described it?*

SHAKOW: Well, fortunately by the time I got back there I had had a lot of exposure to AID people and their programs. But by the time of 1963 and '64, and particularly '65, it was a volatile political situation and very difficult as Americans were being attacked all the time. It was much harder for Indonesians to associate with Americans and in the government ministries they didn't quite know how to deal with AID officials. So it was much more difficult, and in 1965, the trend was towards closing out the AID mission.

*Q: Was that a Washington decision?*

SHAKOW: Oh, I think everybody concluded that it was just impossible to continue to work there at that time.

*Q: The Government was not being cooperative at all?*

SHAKOW: It really wasn't. There may have been opportunities here and there. But considering that this had been a major U.S. AID program for many years it was just a tragedy that it had to close down. But politically it was very difficult.

After Sukarno and the coup attempt in 1965, gradually Suharto came in to take over from Sukarno, and there was the beginning of a whole new approach. One of the reasons AID and State insisted upon moving away from having a large number of staff and a small technical assistance program was that it was just too difficult to manage, and with so many people there you put U.S. interests at considerable risk. There was a big shift to a different kind of program in 1967.

*Q: Well, we may touch on that again. But you left there when?*

SHAKOW: I left in the middle of 1965. The volunteers were moved out to Thailand, a few to other places. I came back to Washington and joined the staff of the Peace Corps, in my last year there, was Acting Head of Volunteer training. Towards the end of 1967, I would have been with Peace Corps for five years. This was about the time we all thought was appropriate, five years in and then out. It also was the time I decided to get married and buy a home, and so it seemed that changing a job about that time made sense, too. So at the end of 1967, I agreed to come to work at AID. I left the Peace Corps just at the very end of December, 1967.

## **Joined USAID as an Office Director for Indonesia, Malaysia, Singapore - 1967**

*Q: Why did you decide to join AID rather than go off to some other organization or nongovernmental organization?*

SHAKOW: Well, it was a natural course; I had done my dissertation on foreign aid and really was interested in economic development. The Peace Corps was a wonderful primer for that in lots of ways and it seemed like a natural progression. Moreover, when I was approached it was particularly attractive, because I was being offered a job as head of the Indonesia program in Washington, and Indonesia was, of course, my second home by now.

*Q: In Washington?*

SHAKOW: In Washington. That's right. I was being asked to come over as Director for Indonesia, Malaysia, and Singapore Affairs. We didn't do very much in the latter two places, so it was essentially to be Director of the Office of Indonesian Affairs. I simply jumped at this, as it was exactly the right opportunity for me. At 30, I was still a fairly young fellow, and it was a very exciting opportunity for me. So that's why I went to AID.

*Q: How did you find AID? What were your impressions of the organization?*

SHAKOW: AID was quite central to U.S. policy in those days. John Bullitt was the Assistant Administrator. I was brought into AID by John Bullitt, and I was kind of jumped over a much more senior person who was in that job. This person was moved out of that job for reasons I never fully understood. So, here I was, placed in this job as Office Director for Indonesia, and I didn't know a great deal about AID itself. That was also about the same time that Bob Nooter came in to be the Deputy Assistant Administrator, though I guess Rud Poats was there when I first arrived. And they were both very helpful to this newcomer. I knew Indonesia, and the people working on Indonesia. There was a lot of collaboration at that time between AID and the State Department — Bob Barnett, Frank Underhill, and Ed Masters, and others; many very fine people. We were especially worried about the Indonesian debt situation on which Bob Barnett played such a large role. This was also about the beginning of the Intergovernmental Group on Indonesia (IGGI), the Consultative Group on aid for Indonesia, which was chaired by the Dutch.

*Q: This was after Suharto came to power?*

SHAKOW: Suharto came in, gradually eased Sukarno out, during the period between the failed coup attempt in 1965 and 1967. So by the time I got into it, the aid and debt efforts were already beginning. The State Department, particularly led by Bob Barnett who was then a Deputy Assistant Secretary of State for the Far East, was already hard at work on the biggest problem Indonesia had, which was this gigantic debt. Until the debt was paid off, or some resolution was reached on how to handle the debt, there simply was not any

way that you could come in with large-scale assistance. Yet there was an interest on the part of the U.S. and its allies, to do what they could. The new government was certainly anti-Communist, and very interested in promoting good relations with the United States, Europe and Japan. So I found that very quickly people were eager to help and Indonesia was in the center.

*Q: You were really there at the rebirth of the program.*

SHAKOW: Yes. There had already been some beginnings, but the first major activity was the debt. It was a fascinating, interesting exercise in which AID was important.

*Q: Were you involved in the debt rescheduling work?*

SHAKOW: Yes. One problem, the big difficulty, was that there was a big debt to the USSR as well as to other Eastern Europe countries. One of the great successes of Bob Barnett was that he managed to devise an arrangement, which at that time was very unusual, for a long term rescheduling of Indonesia's debt. And he did it in such a way that the Soviet Union had no choice but to go along with it as well, if they ever wanted to get paid anything. So it was very unusual and path breaking.

*Q: This was a debt group operation?*

SHAKOW: The basic work was done by the State Department, by Bob Barnett and Al Cizauskas, who did most of the hard number work.

*Q: But there were other donors?*

SHAKOW: Other creditors were involved, of course. This had to be a comprehensive debt settlement, so everybody had to be brought along. So what Barnett did was to build this program and the kind of arrangement the Indonesians could live with, and the creditors could live with. He arranged to have the Western creditors meet together, and ultimately they became known as the Paris Club. A distinguished German banker, Herman Abs, was chosen to help devise this proposed solution — and to convince the Japanese and other key creditors to go along.

*Q: It may not have existed then.*

SHAKOW: Well, it was created around it. This was the way in which the noncommunist creditors agreed, and once they had that agreement in place, they were able to deal with the Soviet debt. There was debt also to Czechoslovakia and other countries. These credits were made, not just for stadia and for steel mills, but there was also a lot for military aid. Nobody quite knew how much of that there was. The debt rescheduling was the first thing. Once that was completed, then it was possible to talk about large-scale assistance programs. In those days AID was a very large player, very active. I guess Vietnam was getting to be a program of great size and substance then, as well. AID was active all over the world — Turkey, India, Pakistan, and so on — AID programs and large food

shipments, too.

*Q: What was the kind of development strategy or economic strategy that you were putting forward at that time, at the beginning?*

SHAKOW: There had been incredible inflation in Indonesia in the latter Sukarno period — thousands of percent as compared to 1960, or to earlier periods. The value of the rupiah was down to practically nothing. And there was this enormous debt as well. So what was needed to start was a major stabilization program. The World Bank, the IMF and USAID were the three key actors in all this. The World Bank leader in Indonesia was Bernie Bell, a legend who had worked in Indonesia before for the EXIM Bank. In any case, he became the Bank's Resident Representative in Jakarta in 1968 and had a direct line to McNamara, a unique World Bank situation.

*Q: Right. I gather the Indonesia initiative was rare in the World Bank's ways of operating.*

SHAKOW: It was rare because nearly everything in the Bank was (until very recently) done from Washington. But in Indonesia, there was a big team led by this very respected American economist, Bernie Bell, who had very close personal relationships with the key members of the Indonesian economic team. These economists had been trained in the United States (mostly at Berkeley) and held the key economic leadership positions in Indonesia under President Suharto. The group of World Bank people provided a major source of support for the Indonesian team on its planning. The IMF, led by Kemal Siber, was crucial in helping to bring under control the fiscal and monetary situation; and then AID, which also at that time had money and talented staff in Jakarta, led by Stokes Tolbert, contributed to this effort.

*Q: What scale are you talking about?*

SHAKOW: We are talking initially of maybe \$75 to 100 million from the U.S. In those days that was a large amount, almost all in program aid - AID or PL480. By 1970, the number that sticks in my mind is a \$300 million program. What was needed was to get imports into the country, whether it was foodstuffs or other things, and try to tamp down the inflation. You had a group of Indonesian economists prepared to do all the right things. The Indonesian leadership was remarkable, starting with the President and working down through these key economic advisors, Widjoyo, or Ali Wardhana, Emil Salim Sadli, many others. These are the so-called Berkeley Mafia, and it was their program. They took ownership of it. We talk a lot these days about ownership. In the case of Indonesia, I never once heard this team say "We don't want to do this, but we have to because the IMF and the World Bank tell us to do it." This was a position that all too many countries, it seems to me, have taken over the years. But not Indonesia during the period I worked on it.

*Q: How did it happen? Were these people trained by AID in earlier years?*

SHAKOW: No. While many good people had been trained as AID participants, this group had been sent by the Ford Foundation to Berkeley. They had sensibly developed close relationships with the military leadership during the early 1960s, and so when Suharto took over this made possible the very important relationship which lasted until very recently. During the early '60s, this group of economists at the University of Indonesia Faculty of Economics realized that at some point Sukarno would go; that the military was very powerful and important in Indonesia; and that it was important to build alliances with the military. Sukarno had no interest in economics at all. He was a very accomplished public speaker with very impressive political skills, but he cared little about economic issues. That's why my Russian friend and I were always talking about the one "mutual scientific interest," how terrible the Indonesian economy was. But this Berkeley Mafia worked with the Indonesian military, and spent a lot of time preparing them for responsibilities that would far transcend the military.

*Q: The Harvard Group was not involved?*

SHAKOW: Yes, it was. It came in 1968 to advise Widjono's BAPPENAS, the planning agency, funded by the Ford Foundation. There was also some AID support. It became an important additional source of strength for the Indonesians. I recall that distinguished Harvard-supported economists such as Peter Timmer, Wally Falcon, and Leon Meers were very active — three very knowledgeable people who have written quite a lot and had worked in Indonesia before. I went out to be the temporary Director in Indonesia for six weeks in 1968 to fill in when the Mission Director in that period, Richard Cashin, went on home leave. During that time, I negotiated with the Indonesians a PL480 Title I agreement. I was surprised to find sitting across the table from me one Indonesian and a couple of the Harvard professors. I thought "Hmm — we're paying for them to negotiate with us!" Anyway, the theory was that such assistance was helpful to the overall negotiations, I think that was true. The relationship among the Bank, IMF and AID was just superb. Initially, Stokes Tolbert was the AID Director. He was a very good economist on leave from the World Bank — he later returned to the Bank. Stokes was a part of this key group which provided the Indonesian team valuable advice. For Widjono and the other leaders of the Indonesian economy to be able to discuss views with people like Kamal Sibar, the Turkish IMF representative and Bernie Bell and Stokes Tolbert, was a wonderful asset for them, let alone whatever was provided in way of material support. They formed very strong bonds and relationships that lasted long after these people left Indonesia. But it was a very crucial time in AID, and Indonesia was one of the most important AID missions in those days, very special for the World Bank and IMF as well.

*Q: You've said that most of the AID program was, of course, program aid. Were we involved in setting conditions and other requirements?*

SHAKOW: Undoubtedly there were conditions. But with the help of the Fund, the Bank and AID, the Indonesians, the Indonesians put on the table a very strong and good program. It received full political support from Suharto. The main goals were fairly simple at the beginning: cut back on inflation, balance the budget, and make it possible

for Indonesians to begin investing in development again. Gradually what happened over time was that larger portions of the total budget became invested in development activities, which in the beginning they couldn't do at all. But they gradually protected the development budget, which was initially heavily supported by foreign aid. They had a very rigorous program, which made it easy for AID to support it. And gradually they began to work themselves out of their terrible problems.

*Q: Were there any outstanding issues you experienced in administering that 300 million dollars?*

SHAKOW: Of course we had a resident Mission Director and he was much more responsible for that than I. My job was to try to make sure there was adequate support in Washington for the program. There was lots of debate within AID — you remember this period better than I do — but one had to struggle for budget, for staff, for everything — and then once you finished struggling inside the agency and with the State Department, you had to go to OMB and struggle yet again and then go up to Congress for yet further struggle. The number of hurdles then were quite substantial, and I don't suppose there are fewer of them now. But in those days, at least, Indonesia was a favored client. Because it was such an important country, and it had been through such hell, and people saw it as a place where the military and the non-Communist groups had taken charge after a period with, if not Communists in charge, someone with leanings very much in that direction. So, given the political climate, it was a very attractive place to put a lot of emphasis. And I think AID Administrators recognized that and so did the Congress. But we were constantly going up to the Hill to make the case and argue for adequate funds for the entire program. With Indonesia a formula was developed, the so-called “one third formula,” which resulted in the U.S. picking up a third of the total aid requirement, Japan a third, and all other donors the remaining third. This formula, devised in the early part of the Suharto period, was designed to avoid the U.S. having too high a profile.

*Q: Where were the IMF funds?*

SHAKOW: The IMF wasn't considered aid. They don't like to be counted in that category. A lot of our effort was to use the formula to build the Japanese contribution as well as others'. The U.S. could have taken a much larger share, but, in addition to wanting to keep our profile down, the theory was that if you were to hold the U.S. share fixed that that would be a way of attracting other monies. In fact, it worked very well for quite a few years. Then after a while, much later on, the U.S. one-third became a ceiling rather than an incentive to others. Because then people said you've got to keep the total to a point that will not exceed two thirds of what some lower U.S. number would be. But it was a very harmonious relationship with the Indonesians and with the other donors. The Dutch chaired the IGGI [Intergovernmental Group for Indonesia] until very recently. This was one of those remarkable situations; the Dutch, having ruled Indonesia for 300 years, and having fought the Indonesians in their four year struggle for independence, and then again over West Irian in 1960-62, in 1968 the Indonesians asked the Netherlands to chair the IGGI.

*Q: Why the Dutch rather than the Bank? Wasn't the Bank doing consulting groups at that time?*

SHAKOW: All other Consultative Groups (GCs) were chaired by the Bank, but the Indonesians specifically wanted the Dutch because they thought the Dutch understood them best of all., after 300 plus years of colonial rule. But it was a tribute to the Indonesians, and to the Dutch, too, that this relationship had matured to the point where the Indonesians really wanted the Dutch to do this. Up until just a few years ago — five or six years ago — the Dutch continued to chair that consultative group. It worked out very well. The Bank did all the work it normally does for such CGs, but the Dutch actually chaired it. It was only when the Dutch Minister of Development Cooperation said a few things that weren't very complimentary about Indonesian policy towards East Timor or some other area, that the Indonesians specifically asked the Dutch to get out of the chair and asked the Bank to chair it. At the Dutch IGGI meetings in Holland, donors came from all over Europe, from Japan and the United States, along with the Indonesians to have very thoughtful discussions about Indonesia's problems and a very successful aid mobilization effort. Again, I don't remember the specific numbers, but year in, year out, those numbers kept going up.

*Q: These were mainly focused on balance of payments, of course?*

SHAKOW: Largely on balance of payments, but not entirely.

*Q: Was it also tied to certain conditions about debt repayment?*

SHAKOW: The new aid was very concessional, i.e. the grants of low interest loans. The old debt rescheduling was finally sorted out in 1970. Everybody had their part to play and debt rescheduling took place automatically. The U.S. had to go up and get appropriations for it every year, but the debt rescheduling was the base on which all this was built. Then the Bank and Fund and AID worked very closely with the Indonesians, in developing the program. It worked. Indonesia stabilized, it began investing in the areas where it needed to put resources, and the development program began to strengthen.

*Q: Did the AID program change?*

SHAKOW: Gradually. I'm trying to remember since I was no longer in charge of it after about 1973. It certainly did move away from being entirely concentrated on balance of payments support. I think that \$300 million probably included maybe \$100 million of PL480 food aid. That was very important in Indonesia. They were not self sufficient in rice in those days. They have subsequently become so. There were major efforts to introduce bulgur, which is a fortified wheat product. Rice was imported. A lot of our time was spent trying to worry about comparisons of rice harvests and the price of imported rice, and encouraging the Japanese as part of their food aid program to buy rice in Thailand and ship it there.

*Q: Did we have any involvement in programming the local currency generations?*

SHAKOW: That was also part of what we wrestled with. For a long time we were trying to avoid that on the grounds that this would be inflationary, or it was considered to be inflationary.

In the end, we had to agree to some of this being programmed, but I think in fact we gave a lot back or used it to buy the AID building. There were vast quantities of PL480 US owned local currency around. Of course, in India's case we really did give back almost all of it. I'm confusing now what we did in India with what we did in Indonesia, but PL480 was a big part of our program. We generated a lot of PL480 local currency.

*Q: Those were times when we had all those categories.*

SHAKOW: We didn't do too much. It was basically PL480 Title I and some Title II. The Title I we were not selling. We did not put it on the open market. But it did generate a lot of local currency, which was then used or associated with bank projects and so on.

*Q: Do you remember any technical assistance? Was there much going on at that time?*

SHAKOW: Not at that time. It was mostly the balance of payments support.

*Q: Were we still doing a lot of participant training?*

SHAKOW: We started up again doing participant training, but it was on a smaller scale than it had been in an earlier time. I think it was focused more on trying to build capacity.

*Q: Did the Peace Corps go back?*

SHAKOW: When the Peace Corps left in 1965 that was the last time the Peace Corps has ever had volunteers in Indonesia. So I both opened and closed that office.

*Q: Was there no interest in the Peace Corps returning?*

SHAKOW: The Peace Corps has wanted to go back many times, but the Indonesians were not [interested]. They set up, even while we were there, their own domestic Peace Corps. There were a lot of college graduates who were unemployed or underemployed during the sixties. I think the Indonesian's conclusion was that to bring over Americans to do jobs which their own graduates could do would be neither desirable, nor politically advantageous. There have been many efforts, and I usually get contacted at such times. I think there were four or five subsequent suggestions made by the Ambassador, or by the Peace Corps to the Indonesians. As far as I know, they've never actually bitten. I'm trying to remember whether recently somebody said they might be interested again. But, in practice, these are the reasons they really didn't want to invite the Peace Corps back.

*Q: Well, if there is anything more on that part, you can add it later.*

SHAKOW: I don't think so. It was a fascinating time to be in Indonesia.

*Q: It was really your introduction to the stabilization program process?*

SHAKOW: Oh, yes. Foreign aid programs were not able to do very much; the experience with the Peace Corps gave me a real sense for what could be done with human beings working with each other. It gave me a great love for the Indonesian people. I've always thought it was kind of a second home and to watch the AID program go from one extreme to another in that period is very good training for me in terms of understanding how much the local situation can affect what you do.

I was in charge of the Indonesia office from 1968 until about 1973, and then I became head of the policy office for Asia. I then became Deputy Assistant Administrator of PPC [Program and Policy Coordination], after Lloyd Jonnes left that job, when Phil Birnbaum was the Assistant Administrator around 1975. So I was office Director for Indonesia for about six years and then head of policy for Asia and then, from there, moved to PPC.

*Q: While you were the Office Director, was there any other country involvement of any consequence?*

SHAKOW: I had the responsibility for, as I say, Malaysia and Singapore, but basically those were non-programs, and Indonesia. The title included these places because somebody had to be responsible for them, but there was no, or virtually no, activity there.

*Q: Then you were in the policy section within the Asian bureau, do you remember particular policy initiatives taking place at that time?*

SHAKOW: This is the hard part, to try to remember that stuff. I'm sure there were, but I'll just have to jog my memory on that at some point.

*Q: Well, we can pick that up later. It was a very short time in fact?*

SHAKOW: It was a relatively short time. Yes. If I were to dig out my CV [curriculum vitae], it's all there. I have this resume that has the dates in it; it helps remind me of the long list. I couldn't hold a job for very long you see.

#### **A new role as USAID Assistant Administrator for Program and Policy Coordination - 1975**

*Q: Well, you move on then to PPC, as a Deputy Assistant Administrator.*

SHAKOW: That's right.

*Q: And who was the Administrator at that time?*

SHAKOW: Well, the Administrator of AID at that point, was it Dan Parker or John Hannah? I guess Dan Parker came in 1973, I see, from your list here. It would have been

in — definitely about 1974-1975 — so it was in Dan Parker’s regime that I moved into the Deputy’s job. As I say, when Lloyd Jonnes decided to retire, go off to study Greece and archaeology and all that stuff. So Dan Parker was the Administrator and Phil Birnbaum was the Assistant Administrator.

*Q: What was your responsibility; what was the role that you played? We’re talking about how many years?*

SHAKOW: I was Deputy Assistant Administrator until the change of Administration, and when the Democrats came in 1977, and Jack Gilligan became the Administrator of AID, I was asked to become the Assistant Administrator; Phil Birnbaum went to work on setting up IFAD [International Fund for Agricultural Development]. I guess I was a couple of years as the Deputy Assistant Administrator.

*Q: Any particular issues that you were having to address?*

SHAKOW: We had to address every issue. That was the thing about PPC. In those days, PPC had the budget responsibilities, which I have told successive AID Administrators they would be wise to resume. PPC had not only the policy issues connected with the sectors in which the Bank worked; but the chief economist also worked in PPC. There was also the beginning of some of these evaluation functions that you know so well, an information function, the links to the United Nations and to the DAC [Development Assistance Committee] and the OECD [Organization for Economic Cooperation and Development], and so forth. All of that was part of PPC, but the key part probably was the combination of budget with policy.

The way I saw PPC, it was to be the honest broker on behalf of the Administrator for the work of the entire institution. This was the time of “New Directions” policies on the Hill. So, of course, we had a lot of responsibility to work with the Congress on defining AID’s view of the “New Directions” legislation. Johnny Murphy was the Deputy Administrator at that time, and very much involved with not only trying to keep the place running, but also dealing with the Hill. So we had all the issues that the Hill was raising about the directions of AID — whether it should be going toward support of basic human needs or something like that, which was what the “New Directions” was all about, or the extent to which we should be dealing with the kind of program we have just been describing in Indonesia or some appropriate mix. Program support and large loans for balance of payments purposes were not considered by Congress to be a key feature of AID programs.

The Administrator, I felt, should be able to turn to the head of PPC, which in the formal rank ordering of AID officers was number three (based on the glory days when you had people like Gus Ranis and other really senior people as head of PPC, I’m sure) as the source of relatively unbiased judgement. For instance, should we take scarce budget money away from the Africa Bureau, where Haven North was trying to squirrel it away to support projects, or from Asia, or the central bureaus. So it was all the usual struggles. I don’t think we solved any of them. But we tried to achieve a proper balance in the

budget — as, for example, between the amount spent on research, as compared to that spent on technical assistance in the field, and how it would divide up between the regions and the center.

As for the regions, we introduced an effort built on World Bank experience. We tried to set up a reasonably objective set of indicators to give us a normative number for country allocations, based on judgments about the country's population, number of poor people, poverty reduction, improvement in policies, and so on. I know this drove you and others in the regions crazy, especially since this system, which we thought was very sensible to have, was constantly put in jeopardy. We might start with a budget that was 'X' and get everybody to do the exercise of figuring out what the relationship ought to be of a region's budget to that total. Then we'd go to Congress and they would cut AID by 40 percent. Then we'd have to go through the exercise all over again — all in an effort to be more objective on developmental grounds and less subject to political pressure.

So, although AA-PPC was not an easy place to be in, it was a fascinating position. We were arbiters of the budget, although ultimately decisions were made by the Administrator. But PPC was in the position of digging away at it and coming up with judgments. We were the ones who had to work with OMB to try and establish support for that overall budget. At the same time, we were into major debates about policy. One that I remember, in particular, was on population. There was very strong support in AID for a direct population program; delivery of large numbers of contraceptives and other very direct methods, on the assumption that if you simply put enough contraceptives in enough places, that that would be enough to bring down the birth rate. I'm exaggerating slightly, but that was one side of the issue, as you know. We thought that that was very important, but that work was also needed on other aspects on the demand side, which included enhanced education for girls, improved health measures, greater access of information and better management and sensitivity to local conditions.

*Q: Those ideas were prevalent at that time such as girls' education and so on?*

SHAKOW: This was fairly ground breaking and PPC was a very active player. There were a certain number of people who understood this, and were supporting it. But in AID at that time, the strength was in the Population Office. That was where Ray Ravenholt, and his colleagues were just gung-ho and missionary-like in supporting this program. You have to give them a lot of credit. They did accomplish an enormous amount. While I was still working on Indonesia, we brought in a very good guy, Jared Clinton, to open the family planning program. He was sensitive to getting local support and getting local organizations, and even the private sector, involved in the effort. That program didn't just push contraceptives to the exclusion of other aspects, or have AID take over control of the program. In other countries it wasn't always like that. There were lots of stories of, allegedly, planes dropping condoms over Pakistan, and that kind of thing. But we had major debates in Washington over policy. We finally got through a policy which we was much more balanced, and then tried to get that introduced throughout the system.

Environment was just beginning to be important at that time. AID was way ahead of

other aid agencies, although the World Bank had someone called an environmental coordinator beginning in 1972. Even when I got here in 1981, and not really until about 1985, was there real attention paid on a broader basis to this, when President Barber Conable came in. But in AID, we had the environment advisor in PPC and really began to do some interesting things in the late 70s, far ahead of most anybody else, I think. And food aid: we were trying desperately to do something about trying to improve the development impact of food aid. Then, of course, the standard argument was that when a lot of food aid is introduced into countries, it acts as a disincentive to production.

*Q: Beginning of PL 480 Title III?*

SHAKOW: Well, I think it led to Title III. I think Title III actually came in about the time I left, or it was being debated then. But we looked at all sorts of possibilities. We, in fact, worked with the Agriculture Department, and our colleagues in other parts of the U.S. Government, to try to come up with something. It became a little difficult to put too much emphasis on this, though, when Henry Kissinger in effect became the Desk Officer for PL480. We were talking about doing things in a developmental way, and Henry Kissinger was looking for an easy way to find the equivalent of cash to hand out to politically important countries without much conditionality. So, while the State Department was in many respects a very good partner of ours, in other respects this kind of desire on the part of the Secretary for unlimited numbers of initiatives, and for being able to respond quickly to needs in developing countries, was difficult.

*Q: Well, let's go back. You talked of this as a very creative, open and dynamic period. You were there when all of these things were initiated. Let's go back to the "New Directions." What is your recollection of the beginnings of that? Why did that evolve and begin to be a sharp contrast with what you were doing in Indonesia in terms of economic stabilization, for example?*

SHAKOW: It really grew out of efforts on Capitol Hill which were in part derived from the writings of a few people in AID. I've always thought that the most significant changes that occur, at least in the government bureaucracies I know, and, in a sense, I think of the World Bank in that way, too, rarely come about solely as the result of terrific, intelligent, creative people inside the institutions just burrowing away with these great visions. Ideas very often start inside an institution or an agency such as AID. But it takes exposure to the outside, and then some push from the outside, to get them really adopted. And then you hear lots of people talking about the importance of AID becoming more focused; paying more attention to people; paying more attention to the social sectors; being more concerned with basic human needs as opposed to program lending, or large industrial projects, or big road projects, and so on.

*Q: Do you have an understanding why that began to emerge?*

SHAKOW: I'm sure AID had always been doing that sort of thing, going back to the beginning. But I think there was a kind of discouragement. First of all, that AID wasn't going to have unlimited resources; that there were other players in the game that were

beginning to be much bigger. I mean, whether it's the World Bank, or others. AID had to be a bit more focused to be sure it did a better job at the things that it did do, as opposed to trying to do everything, and therefore not doing anything particularly well. There was also, I think, a good deal of skepticism that some of these big dollops of funding were actually very effective, and, you'll know better than I, whether there were some evaluation results, and so on, that would have suggested that. Certainly, I think, there was also a kind of resistance to the idea that AID was simply a political payoff.

*Q: Was there some sort of reaction against the foreign aid program at that time that came out of Vietnam and all that issue. Do you remember some of that?*

SHAKOW: You're right. There was a time that there was even some question whether AID would be funded, isn't that right? I've forgotten some of those details.

*Q: You were there.*

SHAKOW: Right. I've repressed them. But Indonesia was always going to get funded. On Capitol Hill the House International Relations Committee, or what I guess was still the House Foreign Affairs Committee, set people to work on the restructuring of the foreign aid program. Their assumption was that it could no longer be funded the way it had been with this kind of open-ended, "we do everything", approach. You're right. You've reminded me of that. That it was time to restructure it. And this was all during, I guess, John Hannah's time. John Hannah himself came from a background which was devoted to, probably quite interested in, education and agriculture and technical assistance of a more traditional variety; probably he wasn't as sympathetic to big open-ended program loans, as I recall.

In any case, it really was the fact that AID was being seen as money down foreign rat holes; that the time had come, and particularly with the Nixon administration and others looking very hard at all this, saying what are we doing this for? The Congress decided to take their own look because they did not think that the Administration could come up with anything, and it probably didn't trust the Administration. This was a period when trust was not very high, as I recall. So there were people in AID who had been writing about this.

Ted Owens who had written *Development Reconsidered*, or what was the name of that book? It's somewhere on my shelf here. And that, I think, drew the attention of some of the people on the Hill who saw that maybe this was the one last great hope for the AID program. So you had Representative Clem Zablocki, Chairman of the House Foreign Affairs Committee for many years, and Jack Sullivan, who was one of the key guys there and later came to work at AID in the Carter Administration. And you had Charlie Paolillo, who had been working for Senator Javits of New York and then went to work for Zablocki, and others there. They started work on a long report entitled the "New Directions for Foreign Assistance," and it then fell to us to respond. As I'm talking, I'm trying to recreate all this. There was a major report from the committee, and the Administration was asked to come up with a response.

I chaired a group that pulled together the response to the “New Directions.” which Johnnie Murphy as Deputy Administrator guided. We went up and testified quite a lot up there. The tension, of course, was between those who wanted to use the words of the “New Direction” to cover everything that AID was already doing, and those who saw it as really setting new parameters. And in writing this, of course, we had to try to balance all this and we needed to explain what the “New Directions” was really all about, define what we were likely to do and what we were not likely to do. There were extreme views among certain people on the Hill. Working for Senator Inouye, the Chairman of the Senate Appropriations Sub-Committee on the was a staff member named Bill Jourdan whose view was that the “New Directions,” (which applied to AID and not PL480) were to promote a direct link between the AID giver and the AID recipient.

*Q: The people, not the government?*

SHAKOW: Right. The ultimate recipient. He thought anything indirect was inconsistent with the “New Directions.” So, for example, his favorite program was the Inter-American Foundation; it was small; it was hands-on, with an individual from the Foundation going and checking out some village in Latin America and supporting that activity. And that’s what he thought all aid should be like. Which meant that life was fairly difficult for anything that was not as direct as that, as indeed most AID programs were not.

Congress used to apply all sorts of tests, as well. Jourdan’s view on PL480, for example, was that Title I Programs were no good because in that case commodities are simply shipped in a large amount, given to an Indonesia distribution agency, and then put into the market system. No. What we had to do was make sure that AID was handing out bags of food to people directly. Even Title II wasn’t direct enough for him.

That was one extreme, and we did try to deal with it, we argued against it, and there were others on the Hill, of course, who thought this was much too extreme. But it did mean that at the other extreme in AID there were many people who didn’t believe very much in the “New Directions,” who thought this was the approach that PVOs (private voluntary organizations), or other do-good organizations, should carry out, and that AID’s real impact would come about through support of major investments. So what PPC was trying to do was bridge this vast gulf.

I haven’t been back to look at it for some time. I do remember trying to write this in such a way that it would leave room for many of the important activities that AID would need to continue to do, even if it didn’t quite match the less carefully worded language of the legislation.

*Q: What was in effect left out, though?*

SHAKOW: One of the questions was could you do major infrastructure? Part of AID didn’t have very much money, but partly also there was this ideological view that AID simply ought not to be in the big infrastructure area. I guess typically in Africa we were not prepared to do railways, or we were not prepared to do highways. But we would do

secondary roads or feeder roads, agricultural feeder roads, or something like that.

But everything was a struggle — and then there were the Human Rights issues. During the Carter Administration legislation stated that AID could not support countries that were violating, or were egregiously violating, human rights. I've forgotten the precise wording. Only BHN projects (humanitarian or basic human needs projects) could be carried out in such countries. The same kind of language is being used now in connection with India and Pakistan, because of their nuclear tests. The U.S. Government will vote against such loans, or keep them from coming to the World Bank Board — for example, major power projects or other such projects in India. So it is very much the same sort of thing now. But we did manage to keep a door open for a reasonable interpretation. And there was a major increase in the proportion of AID lending for family planning, population, health, education and other social sectors and a decrease, as compared to earlier years, for infrastructure.

*Q: Do you recall the terminology that became part of the discussion, i.e., the 'poorest of the poor' versus the 'poor majority'? What was your view on that?*

SHAKOW: Just as the extreme view about having to give food directly to the poor was what some people thought should be the qualifying criterion for aid eligibility, we, of course, said was totally impossible. The expense of doing that, aside from the ineffectiveness of doing it, would be ridiculously high. If we took the “New Directions” legislation too literally, and limited programs yourself to the ‘poorest of the poor’, then vast numbers of people who were appropriate targets for AID programs would be left out. We said, that, yes, the poorest of the poor were important to try to reach, but they also were among the most difficult to reach and nobody had yet figured out how to do that very effectively. But if we excluded people who were just plain poor, of which there are very large numbers, we would exclude most of the activities that AID can do well — and it would also not promote development very effectively. That was another thing we were trying to counteract — these extreme views about who was eligible.

One of the other efforts that we tried to develop was the strengthening of our evaluation capacity, both during the time I was Deputy, and when I was Assistant Administrator for PPC. Doug Bennet became the Administrator of AID, and he was very interested in even greater assessment of the impact of AID's programs and projects. He introduced systems that made it easier to learn more quickly what the benefits were of AID-supported projects were. During that period the system of log frames and other design and evaluation devices were developed. One of the questions we kept asking was “who benefits?” We kept trying to determine who the beneficiaries would be of AID supported projects.

*Q: Do you remember how the strategic planning process characterized who benefits, who should be the ones, who were the poor majority?*

SHAKOW: I'm not quite sure how much of that I remember other than knowing that the crucial question, and the one that Bob Berg, then head of evaluation had, was “who

benefits”. So we kept pressing people in operations and regions of AID to keep asking that question. We kept looking for ways of trying to measure who actually would benefit. And every time a project came forward, we needed to be able to answer that question as best we could, recognizing that this was an imperfect system. That certainly did become, I’m sure, a great bone of contention as we argued who the beneficiaries were, whether a project was sufficiently focused on the poorest of the poor, and so on and so forth. Is there some aspect of this you’re leading me toward?

*Q: PPC, I believe, as I recall, was the main reason the African bureau was involved in developing guidelines to the field on defining the strategy for addressing the poor. In those guidelines there was an approach to the question of defining who were the poor.*

SHAKOW: Oh, yes, yes. Okay. We did try to explain who might be in the poor, or who might not be in the poor, and what measures of per capita income, and all that sort of thing, using available data. When our people asked the Bank, they discovered that, of course, this was also a major effort in the Bank. McNamara loved to count up the number of people benefitted by Bank projects. When I came to the Bank, I began to see how those numbers were calculated. One of the first things being worked on when I came here was an assessment of how erroneous those figures could be, and how weak the original starting point was for many of those statistics. It was very important from AID’s standpoint to be able to go up to the Hill and tell them, especially after the “New Directions” policy had been in place for a year or two, how many poor people were actually benefitting, and demonstrating how that was done. We had to report regularly on the impact of “New Directions” during the 1976-80 period at least.

*Q: What was your impression of Congress’s expectations of how fast or how quickly this was going to have an impact?*

SHAKOW: The Congress had mixed views about all aspects of this. The strongest supporters of the “New Directions” legislation were members of the House Foreign Affairs Committee, because it really had come out of that Committee. The Senate Appropriations Committee, for its own reasons, gave it strong support, but more because they were trying to cut AID programs. It’s probably not entirely fair, but their interest was seen to be cutting back.

The authorizing committees in both Houses, that is, the Senate Foreign Relations Committee and the House International Relations Committee, were both very strong supporters of this legislation. But the appropriations committees in both places were the ones who were much more hard nosed about it. Hard nosed because they were trying to cut the budgets back. But you could certainly play different committees off against one another; not that we were, of course, doing that. But it was very confusing. That’s really more to the point, I guess, that the signals from Congress about this were very different, depending on the committee you were listening to. And while in a general sense, yes, there was great support when you got to specifics. Congress was very deeply engaged in the specifics of the individual programs, as you will recall, and then as now, I guess, every project must be described in the Congressional Presentation.

If we changed anything, or planned to change anything to drop a project or add a project, or even modify a project significantly, we had to go back up to them. That kind of pressure meant you were in and out of those congressional committees, and dealing in particular with the staff members, over and over and over again. And those staff members tended to be real powers in their own right. I was mentioning Bill Jourdan before, but there were equivalents in these other appropriations committees. And we were constantly at their beck and call. I spent a lot of time working on the Hill. I testified a lot in my role as Assistant Administrator, and so I was talking with them all the time.

*Q: Let's go off on that tangent a little bit. There are other areas to touch on, but how would you characterize your experience working with Congress? You were right at the heart of this period of transformation of the program and policy change and all that.*

SHAKOW: Again, it's a mixed story. I found testifying before the House Foreign Affairs Committee to be a very interesting and stimulating opportunity, particularly for markups. I know you had to go up and talk about Africa before Africa's subcommittee. But my involvement was to talk with the committee staff on a fairly regular basis, particularly on the follow-up of "New Directions."

But going up to testify at markups, where we'd be dealing with the entire spectrum of the AID budget, was fascinating. Because on that committee, first of all, most of the members came to the meetings, and they stayed and they had, many of them, been there for many years. There were outstanding people like Solarz and Buchanan and Lee Hamilton. Lots of those who, in those days, found that this was an important committee. And they spent considerable time at the committee and knew the subject matter very well.

They would press us on important questions. They would get into interesting colloquies among themselves on important issues, and very thoughtfully debate them. So that committee I always looked forward to. Yes, you had to be on your toes, of course, but basically it was a sympathetic group. The minute you get started on some of these appropriations committees, then it was hell, of course, because they were interested, I think, in cutting back the budget, in finding error, in putting people on the spot. They were not really terribly interested in the finer points of development, or even some of the major points of development. They had a target, which was, say, 60 percent of the total. Now, how are we going to get down there? So their job was to try to find weaknesses wherever they could.

*Q: Do you remember who the chairman was?*

SHAKOW: Well, you had Otto Passman, to start with, on the House Appropriations side. Then Doc Long. I mean, two people who were extraordinarily eccentric, at best. Some of their staff members were a little more reasonable, but you could never tell with these people if they were going to go flying off the handle. Doc Long on the one hand, was an economist who had written many books and taught economics, as he constantly reminded

us. But he had very special interests, too. What was his...applied technology...something like that. As a result, a small institute was set up to deal with that alone. But in Otto Passman's case it was PL480 that was his great interest, because he was in a major rice growing area from Louisiana. I mean, these guys ruled the world from these appropriations seats, and if you didn't work out some deals with them, then you didn't get anywhere. Luckily, our terrific congressional people did most of the deal making. Like Dennis Neill before 1977, then Genta Hawkins as Assistant Administrator, who was there during the Carter Administration. There was a great deal of close collaboration between the congressional liaison office and PPC.

*Q: What about the Senate side?*

SHAKOW: When I first started going up to the Hill, there were some real giants, people like Hubert Humphrey and Jacob Davits. Both of them, as members of the Senate Foreign Relations Committee, knew what they were talking about. They were very involved with foreign affairs, very sharp, and they had great ideas. Of course, Humphrey had his proposal for bringing all the pieces of foreign economic policy together in IDCA [International Development Cooperation Agency], which passed just about the time he was dying. People like that meant there were very insightful members of the Senate.

The trouble was when we testified. The Senate Foreign Relations Committee was probably the best example of this. These Senators were in and out all the time. I contrast it with the House, where the members were there and were engaged with you, and would listen to what you were saying. Most of these Senators were there to tell you something. They came in, they spent ten minutes there, they told you what they thought, interrupted their colleagues and asked the same questions somebody had asked while they weren't there. So it was always much less satisfying on the Senate side.

On the Appropriations side, you did have, as I say, Senator Inouye. He dug in to this a lot and his staff members were constantly badgering us about one thing or another. They were most obviously worried about the operating expense account of AID, and would do whatever they could to cut back on benefits in any possible way. But they also were prepared to cut out aid to entire countries, and wanted as well to cut out whole sectors of AID programs. So on the Hill, overall, it was a frustrating experience, with the exception of the House International Relations Committee. It is indicative that at least two of IHRC staff members came down and worked for AID, Jack Sullivan and Charlie Paolillo. Charlie became my deputy; Jack first, helped to manage all AID personnel decisions for the new Carter Administration team, and, then, became Assistant Administrator for East Asia. But working with the Hill was frustrating. But each year we got a Bill out of it, most of the time, even if it was only a Continuing Resolution!

*Q: But the parallel with that, of course, you were the key person in the linkage with the State Department, were you not, on the budget decisions? To what extent did they try to impose on AID allocations by country or regions and so on?*

SHAKOW: It was most different during the Nixon-Ford period. Then the State

Department, particularly under Henry Kissinger, had very clear ideas about what they wanted to do, and State's views were, of course, highly politicized. It was not an easy time to be trying to put together AID budgets, which in the end the State Department had a very strong role in determining. The Carter Administration was very different and very interesting, in that Tony Lake, Head of Policy Planning, was our main link. Tony Lake was very close to Secretary Vance, and was not only his speech-writer in policy planning, but was also his key policy guide. There were constantly tensions about Security Assistance, which was a major responsibility of State Department, but we would try to adapt and twist and turn and even limit the size of the Israel-Egypt programs. In the end, the Secretary returned them to their Camp David levels. There were efforts even then which are beginning again now to cut back on those aid programs. But Security Assistance programs were obviously always a source of contention. Parts of AID loved the idea that they might get in under the Security Assistance blanket, because that was the budget area that tended to be growing at that time.

*Q: And more flexible?*

SHAKOW: And more flexible, of course. It was not covered by the basic "New Directions" legislation. And so lots of things were thrown in there. Everything from base rights considerations to an Africa fund of some kind, as I recall, in Security Assistance. But the distinction I was going to make was when Tony Lake became Head of Policy Planning. He was very easy to work with; in fact, he was much more "like us" than he was his State Department colleagues. I'm sure it was very difficult for him. He believed in development. He believed in the importance of country allocations that followed some sort of objective basis. There were times when budgets needed to move one way or another for foreign policy reasons, but he understood why it was important to know the objective starting point, then you could decide why you were doing something, rather than simply chucking a lot of money in the direction of a country because that happened to be our favorite that week.

We found Lake to be a very strong ally, and a strong ally especially with the Secretary. Deputy Secretary Christopher was also very good to work with. My impression was that, in general, we had very close working relationships with the State Department during that time, although I am not sure the Administration found it too easy. I think there were some natural tensions at the regional level, I guess, more overt than the ones we faced. But I found the working relationship with the State Department to be a joy at that time. Partly because they did, indeed, respect what we were doing.

I was also in charge of the international organization account for UN programs, and so on, that came into the AID budget. So there was sometimes more tension on that than on the rest of the budget, because there we were in the position of cutting back programs that the State Department particularly wanted. Some of these UN agencies AID had nothing to do with, but we had to fit them within a much narrower budget mark that came from OMB.

Now there was a period when we got half way through the Carter period - after Gilligan

left and Doug Bennet came in as AID Administrator - we had the creation, as a result of the Humphrey initiative, of IDCA, put another layer into the relationship.

*Q: You were in your office when IDCA was created? What was your experience with it?*

SHAKOW: I always thought the idea was very good. The original Humphrey idea, supported by a number of others who had promoted this idea at various stages, was that the U.S. international assistance programs were too diffuse with centers of power in Treasury, Agriculture, OMB, AID, State, and, perhaps, half a dozen other agencies. An overall czar was needed who would be able to bring a coherent policy together. Now you hear a lot of talk in DAC and elsewhere about how important it is to have coherent policies. Well, the proposal by Humphrey was that you put a structure around this, and you put in charge a person who would be the one to determine what the policies of the U.S. Government would be in its international assistance programs. This was very good theoretically, and sitting on Capitol Hill it sounded like the perfect thing. Then you could call on one person to tell you exactly what the U.S. Government was doing.

*Q: And this person was to report to the President? Is that right?*

SHAKOW: And this person was to report to the President. The problem was that, while you got the legislation, by the time it was put into place by the Administration all the powerful forces had managed to opt out. So Treasury managed to get the multilateral banks out of it. There was some fig leaf there, but basically Treasury remained in control of the MDBs; Agriculture in control of PL480, and these were the two big elements; and State Department was left in charge of Security Assistance. So when you came right down to it, IDCA was in charge of only one group of programs: AID and the associated parts of AID. I think they may still have had OPIC [Overseas Private Investment Corporation], and the trade and development programs.

*Q: Peace Corps?*

SHAKOW: Oh, no. Peace Corps was kept very separate. The head of IDCA, Tom Ehrlich, had come from Legal Services Corporation. He was a very good guy, a lawyer, but with no particular background in development. He tried to make it into something. He couldn't really do anything other than call meetings, which some people from other agencies might come to, but many didn't. I think after the first meeting nobody came, at least at the senior level. The only institution that he had real control over was AID. So poor Doug Bennet, having come in as Administrator of AID, and normally with responsibilities to the Secretary of State directly, and very often the White House, found himself with another layer. Tom Ehrlich brought in a dozen very bright people and their job was to try to ride herd over AID.

One of their theories was, and its not entirely without sense, that the administrative costs of running an AID mission were very high, and when the program was very small it didn't make a lot of sense to do business that way. So, in their view, 20 or 25 AID programs, most of them in Africa, but not entirely, should be phased out quickly because

they were not cost effective. If it cost two and a half million dollars to run a two million dollar program, that wasn't very sensible. That's logical and it was sensible to find other ways of doing this.

For the State Department this was horrendous, because for the ambassadors in these small countries, about the only thing they had to work with was the AID program and it didn't matter if it was small, at least they had something. So they unleashed holy hell and we spent a lot of time being caught between State Department and IDCA. IDCA technically was in charge of us, but in a lot of ways they were not. It was a constant struggle for Doug Bennet, because he wanted the kind of freedom that previous AID Directors had had, and yet he was caught. It wasn't that he didn't ultimately win most of the battles, but it was so enervating to have to go through all that, over and over and over again. For me it was really bad, because I was dealing with the budget, and whereas I had normally dealt only with State Department and OMB, now I had IDCA in there. They had their own, in my view, crazy schemes. So, in practice it turned out that it was only a duplicate of AID, essentially, without the resources and getting in the way of the really competent people.

*Q: But the example you cite suggests that IDCA really wasn't addressing the broader question of development policy.*

SHAKOW: Well, they tried to do that, too. In some ways helpfully, but it was just that we already had that capacity. So they were constantly on the lookout for things that they could do. It's already a question mark as to what PPC's role is in some of these areas, as you know well, when you have a big technical bureau as well. So policy questions have always been hard for AID to cope with. Who's in charge of policy? You had a group in PPC that was primarily made up of economists who were asking questions about policy in AID, whether it was population, or education or something of that kind. You also had a whole bunch of people in the central technical bureau who were educators or other skilled people, who thought they knew about policy. The issue on population, as I've said, was a real confrontation. In the end, I think that the best course won out. But it was always tricky. The minute you instituted a whole other group, looking to do the same sort of thing PPC was doing, it was utter chaos. So we spent a lot of time spinning our wheels and fighting ourselves, which was a waste of time at a time when there were many other things to do with Congress and all the rest.

*Q: Any other area you worked while in PPC?*

SHAKOW: Let me say a few things about the OECD Development Assistance Committee (DAC), and then, maybe, since I did take a quick look at some of this old material, about the "New Directions." PPC was responsible for our relations with the DAC. There were a lot of DAC meetings where we defended the U.S. aid program to other donors. But more than that, I think it's the degree to which AID was a leading partner, along with the other aid givers, in this organization. Of course, with the Americans in charge of the DAC, whether it was Joe Wheeler, Ray Love, Rud Poats, John Lewis...I'm trying to think back to those days. I guess I'm confusing it a bit with

some of the people who were there during my World Bank days, but I've always thought that the DAC was a much-underrated institution. I guess that, when it started in 1960, it was seen as a more forceful outfit.

*Q: What was your understanding of why it was created in the first place?*

SHAKOW: In 1960 or '61, there was a sense that you needed to have more peer review of aid programs in order to increase the quality, or improve the quality and quantity of AID flows. The OECD was in existence (albeit with a slightly different name); the creation of a development assistance committee with a resident chairman and a group of representatives from all the major and some minor AID donors, was an interesting proposition. I don't remember exactly how it got formulated. It clearly was an opportunity encouraged by the U.S., to spread the burden on aid, and to get more and more donors involved.

By using the peer pressure of reviews of AID programs, you could, hopefully, raise the level of overall contributions to development assistance. Of course, at that time the U.S. was in the lead there, and the U.S. was in the chair, but lost out on that responsibility at the latest the elections. For many, many years, of course, the U.S. was the largest single contributor of foreign aid. It's now slipped a little bit from that in absolute terms. And, of course, in relative terms it's very much at the bottom of the heap. Whereas the aid goal the UN set for ODA, Official Development Assistance, to be .7 percent of GNP, the U.S., I think, at the moment, is at .07 percent of GNP. So, what's that? Ten times? Whatever it is, the absolute amounts are still significant, but the proportions are very small. But I think that it did serve a good purpose. The U.S. Congress and maybe the U.S. Administration has not taken it very seriously, and the views of the DAC, when they were critical of U.S. aid programs, were not instrumental in bringing about reversal of pressures to reduce AID levels. But for other countries, I think it has really served a useful purpose; in European countries, and, I think, even Japan, the fact that the group of peers were critical and encouraged action did have some impact. It gained more public attention.

*Q: What you're saying is that it had really no impact on U.S. foreign assistance policy or practice?*

SHAKOW: My impression is that, if you're talking about the peer reviews, that's probably right. I think that the working groups within the DAC, of which there were many, and in which the U.S. always played an active role, probably did have a good impact. Views came from other AID donors, some of whom had quite advanced programs and did very good work. Others were less good. There was a time, of course, when the U.S. was without peer in terms of the quality of its AID program, the size, and its diversity. In 1960, in 1965 even into the late '60s, this was true. But after awhile, of course, many of the donors began to pick up and the U.S. began to move into decline in this area. So, while we still had enormous resources and many skilled people, it wasn't in nearly as dominant a position. One could easily learn additional techniques from others.

You, I know, were active in the evaluation group of the DAC later on. That has turned out to be, I think, quite a useful source of information. A place where the U.S. and others, who have taken evaluation seriously, can promote understanding in other institutions. So there has been a lot of gain, I think, in lessons learned and experience shared.

*Q: Do you think it has improved the quality of aid?*

SHAKOW: I think it certainly has improved the quality of aid. Many countries, many donors, weren't very much concerned with quality. They were concerned with export promotion or other very narrow interests and took very little interest in how the resources were used, or coordinating with others, and so on. Aid coordination issues are still very much an area where there is a lot of room for change. My impression is that other donors have learned quite a lot from being put under scrutiny by DAC; that the findings and the conclusions of some of these groups led to joint statements that were issued by the DAC. Most recently, those statements focus on goals for the 21<sup>st</sup> century. They concentrate attention on five or six global goals, which have been adapted to individual country circumstances. All of that, I think, is just a very useful series of steps to enhance the quality of bilateral aid programs, and even multilateral programs.

*Q: Was there any particular area of the AID operation that had a particularly significant impact that stands out in your mind?*

SHAKOW: There were some. I guess I have not thought about that for awhile. I know the DAC had worked very hard on trying to emphasize increased in-country aid coordination. There have been useful efforts at trying to strengthen World Bank Consultative Groups and UN Round Table processes. We used, in fact, when I came to the Bank in the late '80s, a lot of DAC material to provide guidance to our own staff here in the World Bank on what lessons could be learned from experience on aid coordination, and the running of Consultative Groups [CGs]. Strangely enough there was no single office in the World Bank that had an overview of that. The closest thing to an overview was the Department I then headed.

Our staff member in Paris, who attended most of the Consultant Groups (almost all were held in Paris at that time) and the DAC, which maintained a watching brief on all of these and reported on them, reviewed every single one of these aid CGs. Now, of course, the Consultative Group itself is only, in a sense, the tip of the iceberg on the AID coordination issues. What goes on in-country, and what leads up to a CG, is very important. In this area there has been a lot of emphasis on strengthening local coordination. Working to strengthen the capacity of the government to take the lead on some of these things is important. This is now rhetoric that the World Bank and everyone else now espouses. You would think that much of this should be considered a given, that it isn't a complicated concept. Yet it wasn't something that many donors would accept, the idea that the AID recipient is at the center of decision-making and so on. And, of course, the problem is that very often these countries have not yet been capable of taking on those roles. The DAC, years and years ago, was talking about the importance of strengthening local capacity to do this, to take ownership.

*Q: What about donor procedures?*

SHAKOW: Procurement was an area of considerable attention and on that there has been some progress. The untying of aid became a matter of considerable controversy. The untying issue is a complicated one. There are donors who say the more you untie; the less you will have in the way of resources, that there is a tradeoff between quantity and quality. While no one will deny the virtue of untied AID, they will say that in practical terms if we untie AID completely, or as far as sometimes the DAC has proposed, or some members of the DAC have proposed, that will then result in a reduction in overall AID levels. That's been one of the arguments used in the United States.

*Q: Was it an issue for the U.S., or did we go along or what? How were we involved in that?*

SHAKOW: There were certain areas in which we were prepared to untie, but wholesale untying we were not prepared to do, as long as I remember. And, again, it was a case of volume versus quality. But if you look at what has actually happened over the years, a very substantial amount of aid has actually been untied. The Japanese went much further, at least on paper, in untying. There is some question as to whether the specs for procurement are written in Japan in such terms; so that inevitably, even though it is an untied program, much of the purchasing still ends up in Japan. There has been a lot of progress in many quarters for untying, so that a substantial amount of AID is now untied in one way or another. But, we are not there yet.

Another particularly important area was the debate about export credits and the degree to which aid could be mixed with export credits. The object was to avoid a situation where export credits were sweetened by aid. The motivation was really to promote export credits and exports, rather than development assistance. The commingling of those two has come under a lot of attack, and it has been severely constrained. There are now rules and guidelines that the OECD, through the DAC, has established. So these are among the things that the DAC has done.

It has been a place where an American, distinguished in the aid field, could travel the world and speak on behalf of AID donors. To press donors to perform better, but also to encourage developing countries to undertake sensible policies and programs, to work with each bilateral donor to see if there was something more that could be done.

*Q: What about the areas that you were concerned with at that time? With the "New Directions", basic human needs and human rights, was the DAC a forum for those sorts of things?*

SHAKOW: Well, certainly there was a lot of explanation then of what the "New Directions" program was all about, and the changing nature of the U.S. aid program. That was something that we would explain to the DAC members. In many respects, I suppose that served as a basis for other donors picking it up. Look around the world at many of

the aid programs today, and at the World Bank for that matter. You see the concentration upon strengthening the social sectors, emphasizing more of a participatory approach to development. The importance of seeing the benefits accrue to the poor, and staying away from some massive infrastructure projects, and the strengthening of the private sector role. These kinds of elements, which I think were key parts of the “New Directions”, are really very common throughout many aid programs around the world now. Not exclusively, but that is now much more the feature of them. In the early 70s or before that, I would say, there was much more concentration on major, big investment projects and less on some of these other aspects.

*Q: Did you attend any of the DAC meetings?*

SHAKOW: When I was head of PPC, I used to go to defend or explain the AID program to the DAC. So, on a regular basis I did go to DAC meetings at that time. There were a lot of other meetings, which were more technical. These were attended by people throughout the agency who were specialized in these areas.

*Q: Some people say that the DAC’s usefulness was limited because representation, apart from the U.S., was largely local embassy people, who didn’t really know much about development.*

SHAKOW: That wasn’t true. Most of the people at the DAC in Paris were permanent representatives sent from capitols. With rare exception these were people who came out of their development ministries or their aid programs. So it was a good forum for discussion among AID professionals. The quality of those people varied a lot, but there were periods when you had very, very good people there.

*Q: Did you participate in High Level Meetings which the Administrator attended?*

SHAKOW: Yes. On some occasions the Administrator didn’t attend, and as head of PPC, I was the higher representative.

*Q: How would you characterize those meetings?*

SHAKOW: Again, they varied in quality. It depended upon what the issues were at the time. Some of these countries have very articulate and effective spokespersons, especially from those countries that take their aid program seriously. So it was, I think, a good occasion for the heads of aid programs to get together, whether they were aid ministers or the head of aid agencies.

The attendance at those meetings tended to be pretty good. So for a day and a half you were able to hear quite directly what the political problems were these people faced, or what was happening at the time aid was under pressure, say, in the United States, but going up in many other countries. You also got a flavor of how far some of the issues could be pushed, whether it was untying or human rights, or any other of the issues that were particularly controversial over the last 25 years. You heard the degree to which aid

donors wanted to get involved in governance questions; how much they were willing to encourage developing countries to move along sensible paths economically.

The World Bank, UNDP and the IMF played an active role in these meetings, too. It was not just the bilateral donors that played very active roles. When I started going to some of these meetings with World Bank officials, people like Ernie Stern and others were going and making a very significant contribution. It helped to bring multilateral and bilateral AID together a bit more than it had been.

*Q: One of the features of the DAC was the annual Chairman's Report, particularly the first section, which was a personal report. What has been the significance of that document in looking at it from the World Bank, which writes a lot of this material anyway? Was this a useful device in your day?*

SHAKOW: I always found the Chairman's Report to be exceedingly useful. It was not so much because of those chapters by the DAC Chairman, although they were helpful in providing an overview of developments. But I found the most value was in the data provided on AID flows and the assessment of trends and directions on other donors, which was always useful for our own work. One of my decisions was to buy 200 or 250 copies of the Chairman's Report and make it available to every desk officer or equivalent in AID to make sure that everybody had access to this report. I'm sure that is not done anymore, but it was, I thought, a useful way to at least have it available to everybody. If you wanted a sense of what was happening in the donor community, there was no better source than the DAC Chairman's Report. As you say, it had an opening section by the DAC chairman, but the rest of it was prepared by the Development Cooperation Secretariat in the OECD.

*Q: One of the other criticisms of the DAC was that it didn't really relate to the recipient country. Therefore, it was an internal debate of donors among themselves about developing countries, but not learning from them.*

SHAKOW: It has been and still is a donor's club, just as the OECD is an industrialized country's club. That's changing now as they are reaching out to include countries that are in transition. Mexico and Korea and Turkey and Greece, and others, are now, some of them, members of the European community. So, the OECD/DAC is reaching out to countries that have grown quickly. But there is a value in having a place where donors can talk to each other and not feel inhibited in any way, other than by whatever normal inhibitions they may have had. There are other places to talk with the developing countries, so it was important to have this forum. Times are changing, however, and they need to continue to adapt.

*Q: Any other dimensions of the DAC business?*

SHAKOW: Given the decline in U.S. aid, other countries occasionally suggested that the DAC Chairmanship should go to a country that demonstrated its generosity more clearly than the United States. The U.S. might be a large donor, or maybe even the largest donor,

but in terms of proportion of GNP it was certainly not in the lead. There were occasional efforts by the Swedes, and maybe others, that they would like to take over the Chair. But I think the major deterrent was the fact that the house of the DAC Chairman had been bought by the United States; that house did not go with the job. If anybody else took over the Chairmanship, they would have to find a way to house the DAC Chairman. I think that ended up being quite a persuasive reason to allow the United States to continue in the Chair, in addition to whatever other reasons there might be.

I think on DAC, that is probably all at this stage that is worth saying.

*Q: Were there other dimensions of your work there that we haven't touched on?*

SHAKOW: Let's go back for a minute to the implementation of "New Directions." Again, it was PPC that was charged with interpreting this "New Directions" legislation that the Congress had issued in 1974. During 1975, we worked quite hard in coming up with a full-scale report to the Congress on implementation of the "New Directions." We were trying to tell them both what we were doing, and how we interpreted it; to point out certain goals which we felt were either impossible, or were being misinterpreted, and so on. I mentioned last time this problem caused by the use of the word "direct", which often appeared in the "New Directions" legislation, and which might imply to some people that aid should virtually be provided by giving it directly to the poor person. Actually, of course, much of what AID was doing was indirect, through institutions in developing countries. We had to explain that kind of thing.

We also wanted to demonstrate that we understood some of the concepts and words that are thrown around so easily in the legislation, such as "participation", were very, very difficult. Ten, twelve years later in the World Bank we encouraged the Bank-NGO Committee, a group of Bank staff and non governmental organization representatives, to begin a program to understand how participation could be made to work above the village level. So a learning group was set up at that time, which took several years. Gradually the Bank has taken this on as a major preoccupation. But it is still certainly learning about it.

While we were charged in the "New Directions" with making sure that programs were participatory, in 1975 we were trying to explain that while we were working toward that, one shouldn't assume this was going to happen overnight. It's a fairly thick report in which we've detailed the approach we were taking. That was received quite well in the Congress. There was never any doubt that we still had a long way to go and many NGOs/PVOs, and others would, of course, push us and attack us. But I think that this study, done by PPC and presented to the Congress, on which the then Deputy Administrator, Johnny Murphy testified, was considered a very positive response from AID. The problem in getting it accepted inside AID, was, of course, one that we had to keep coming back to over and over again.

*Q: I was going to ask about that. You're in a policy position and, of course, its one thing to have a policy and another to get it implemented. How did you find the agency responding to this? How did you go about making sure the agency took the policy?*

SHAKOW: I don't remember all the details. But certainly we tried to publicize not only the "New Directions" legislation, but also the implementation report. We went around and talked to people. Regularly several of us would go around and do dog and pony shows, to try to clarify what was meant, and to indicate the responsibilities of various parts of AID to implementation of this. We had a group set up that was devoted to looking after implementation and pushing people in regions and elsewhere to follow through.

Leaving aside AID's operating expenses, each project, each program, had to be presented in a Congressional Presentation. We had that responsibility, too. To go through and make sure these descriptions of projects, programs, were consistent with the "New Directions" legislation. Or, if they weren't, to make sure we made clear why. We had to explain the functional categories that defined the five areas where AID would be allowed to operate. We worked on these definitions. Then we had to swap project proposals into those categories. Now some of them, one or two of them, were broad enough that you could put a fair variety of things in. Others were quite specific in terms of education, health, nutrition, that sort of thing. And I guess that was another part of the way that Congress would be sure that we would implement this, implement at least in the sense that the proposals that would come forward for funding would fit within this overall rubric of the important categories. If we budget that way and describe them that way in the Congressional Presentation, we'd begin to get locked into these programs.

*Q: Did you find the agency's field missions responsive?*

SHAKOW: It was very mixed. It took a lot of time. We were going through all sorts of internal upheavals, too, because IDCA was established. My recollection is that by and large there was a favorable response, but there were still many places that did not, many staff members who did not, really understand what this was all about. Who considered — who considered it, many ways, to be just a PR gimmick. I mean, infrastructure, for example. One of the implications of the "New Directions" legislation was that we wouldn't really be into infrastructure. But I do recall that in our report to the Congress on implementation, we made clear that you couldn't be dogmatic about that; that in Africa, infrastructure, whether we're talking about feeder roads or any number of other things, is crucially absent. While you might not need to do major highways in Asia any more, you needed to do certain kinds of things in Africa that would still be categorized under infrastructure. Within functional categories the amount of funding was limited. Congress often put a lid on these accounts as a way of sending a message. I think the Agency responded, but far less than would have been desirable.

*Q: Well, any other part of your PPC responsibilities that we haven't talked about?*

SHAKOW: Let's see. Where are we now? 1977-1978? I guess I mentioned that I did a lot of Congressional Presentation work. I did talk about that. We worked as the eyes and ears of the AID Administrator on budget and policy matters. We worked very closely with OMB in trying to get the budget through, and that was always a struggle and a trial. We

had to fight those battles within the U.S. Administration before we would even get to the Congress. We also worked closely with the State Department; I guess I mentioned before that Tony Lake was a very good person with whom to work.

*Q: Did you have dealings with AID agencies, Treasury, Department of Agriculture?*

SHAKOW: Some dealings with Treasury. PL480 was a subject which gave us a great deal of contact with other agencies.

*Q: Along with Title III initiatives?*

SHAKOW: Initially Title I. I may have mentioned last time that Henry Kissinger turned out to be the PL480 Program Officer. We were trying to keep politics out of decision-making on PL480. We tried to emphasize the economic basis and a rational approach to its allocation, but that was hard with the State Department so deeply involved. But on this we worked very closely with the Agriculture Department that had its set of interests. OMB had its interests. Treasury even had some interest in this area. It was a very interesting time because PL480 was an enormous resource.

We dealt with the White House quite a lot, and during the Carter Administration there was a figure in the White House who was very deeply involved in the AID business, and that was Henry Owen, an assistant or senior advisor to Zbigniew Brzezinski. He had been head of Policy Planning in State; had many interests throughout the world, particularly in developing countries, and wanted the Carter Administration to play a much more active role than had been played by AID in the past.

So, in effect, Henry Owen became the President's eyes and ears. and stick. on AID matters. And the other thing about Henry Owen that was quite unusual was that he had no compunctions about picking up the phone and calling anybody to find out information, or to ask for help, or to tell them what to do. So, I was frequently on the phone with Henry, who called, for example, about what could be done to get more resources into Indonesia before a visit by the Vice President, or how we deal with the Central American republics in terms of PL480. We had a lot of contact with the White House, because Henry was a very active person. In fact, he had a lot of contact himself with the World Bank at that time. He would engage World Bank agriculturalists, or others, in meetings with U.S. Government officials from AID and elsewhere. He almost single handedly was a bridge to many different parts of the U.S. Government. In fact, when IDCA was formed, the real coordinator of the international assistance program in the United States was Henry Owen, because he was sitting there in the White House and the President was giving instructions. Decisions being made on budgets and other things, and it was Henry who was always on top of all of that stuff. And as I say, he had no hesitation in making phone calls and getting things done. You probably got some phone calls from him in your day, too.

So there were a lot of interagency discussions of that kind. Now, of course, PPC, while it had this role with the outside, also had a very important role inside AID with the regions, and with the central technical assistance bureau, and elsewhere.

*Q: You were reviewing all projects at that time?*

SHAKOW: PPC people reviewed all projects. They reviewed all budget requests. Because we had the budget responsibilities, which no longer exist within PPC, that gave us a good deal of responsibility for helping to ensure that the policies that we were formulating (along with others in AID) were also being more or less represented by the kinds of projects that were coming up. Budget discussions with the regions were always difficult, but in the end our common effort was to try to find a rational way to present the Administration with something sensible. I remember, in fact, difficult discussions with the Africa region, because we always had our eyes on larger amounts of money than we ultimately received.

I think I said the last time we spoke that we tried to develop a rational allocation system, based on the size of the country, number of poor people, policy adherence, sound policy, something that here in the World Bank IDA uses quite effectively. Of course, IDA knows how much money it is going to have. In AID, we didn't know that. We would often find ourselves having to go back to the Region, and tell them that while we originally thought they were going to have five hundred million dollars, the actual amount was only going to be \$350 million, or something like that. The problem we often encountered was that the regional views were that, if that was the case, they would shave all the projects rather than stop any of them. Grant funds could be provided that way, and the assumption was that the next year the additional funding would be provided as needed.

Through this process, late in my tenure in PPC, we had mortgaged so many resources, it was practically impossible to start anything new in the Africa region. The budget had been cut back sharply, but the projects were still going ahead. You and your colleagues had very little room to maneuver, as I recall. You and I had some discussions about that.

*Q: That's right.*

SHAKOW: And I think that's not a unique problem to AID, or to the Africa region. I've forgotten too much, but I've always thought that PPC was an extraordinarily interesting place to be and a very important function, if the Administrator wanted to use it.

*Q: Did the Administrator use it in your day?*

SHAKOW: In my day, certainly the Administrator did.

*Q: With whom did you work?*

SHAKOW: Well, I worked for Dan Parker and Jack Gilligan and Doug Bennet. I guess that was it during the period I was at PPC. Each of the Administrators used PPC in a way that I think was appropriate because this was the central place for budget — except for the administrative budget — and the central point for policy. Although, again, this function was shared with others and there was a little bit of tension there.

The Administrator of AID could look to PPC as a relatively unbiased, relatively objective source of information and guidance. Our views were not always accepted, of course, but on budget matters and on certain policy matters, I think we had more than our share of support. I hope, if I'm remembering this correctly, which I may not be, of course, it was because we were seen as relatively honest brokers throughout that period. Even though there were times when, of course, people were very upset because budgets were cut.

We also were responsible for the international organization account in the State Department, and worked with each State Department officer who was responsible for one of these very small UN agencies for which there were U.S. contributions. These were not assessed contributions, but voluntary contributions. These agencies would have a budget as small as a few hundred thousand dollars or maybe 30, 50 or 60 million dollars. Must be more than that, I guess, because we also had UNDP.

So there were about a dozen agencies and there was never enough money. OMB would always be trying to cut those back, so then we had to make these terrible choices: 750 thousand for this and a million for that. We had many more problems with these small amounts than with the AID regions. This put an important premium on the PPC staff, working both in the budget area and in the policy area, to be really up on things. Otherwise, AID and State were not really getting value out of all this, and I'm sure in some cases many of you felt we were not adding much.

*Q: Did PPC have any of its own projects?*

SHAKOW: There were a few things. In those days this was discouraged, but we had taken over certain responsibilities, including — tho' I don't remember when this was — the evaluation and information functions. And also some of our people working in the sectors....

Q: Policy research.

SHAKOW: Policy research. So there were occasions when people thought that maybe we were biased, because we had to allocate money to ourselves, but we tried to be reasonable about that, and not excessive.

*Q: But there weren't any especially significant enterprises in that area?*

SHAKOW: I think that most of it was designed to provide support on policy questions. I used the example the last time of what we did on population. We really did want to open up the debate in AID on population. That meant that while we spent very little, I think, on policy-oriented research, it was important to get out on the table that it wasn't simply the provision of family planning services, and particularly contraceptives, that was the whole story, if you wanted to change the behavior of people. So there were some consultants used for that purpose. We also had the chief economist working for us, and there was a bit of work of that kind. I'm sure there were some very useful things that were done on

the economic side, but I'm just not remembering precisely at the moment.

Q: Okay. Anything else about the PPC role, or we can move on to some broader questions.

SHAKOW: No. I think I've made known to successive AID Administrators that by taking away the budgetary responsibilities of PPC, it really diminished significantly the value of PPC to the Administrator. While a brilliant head of PPC can, of course, be influential in AID, it's a very hard role to play, if you're simply having to always come up with better ideas than anybody else does.

*Q: But you still have to be able to implement them; you have to put them into effect.*

SHAKOW: Yes, and the budgetary clout and what went on in trying to understand how funds were being used, and what they should be used for, is just a very important component of that. I think it ought to be tied to policy much more than it has been of late. I think that really has diminished the role of PPC and of PPC's Assistant Administrator.

### **Observations on U.S. foreign assistance**

*Q: Well, let's turn to your observations about U.S. foreign assistance. First, about the agency itself, you've already touched on a lot about it, but what is your impression of the agency as a development organization, at the time you were serving in it?*

SHAKOW: The first thing, I think, that always impressed me was the enormous number of very talented people there. I came to AID in January, 1968. I was not there during the formation of AID, and even, of course, during some of the earlier periods in the 50s. I had studied this, and you know I had done work in the beginning of the 60s with Indonesia. There were a very large number of people who were knowledgeable about assistance programs, who had worked in developing countries, and who were very good at working with their counterparts. There were obviously some people who didn't fit that description, but it was a very impressive group, I thought.

I guess that over the years that quality has eroded, as the amount of resources available to AID declined. More and more time and attention was spent trying to address Congressional problems, or answer bureaucratic concerns. I remember Jack Gilligan saying that he thought that the rules and regulations of AID, most of which were imposed directly or indirectly by the Congress, were designed as if every member of AID's staff was a thief or a crook. You needed to be able to protect yourself against malfeasance. So, there were endless numbers of rules and regulations and controls put in. While that maybe did stop certain things that should have been stopped, it also, in practice, impeded the efficiency and effectiveness of AID programs.

There was emphasis placed upon the field missions. What I saw in the 60s in Indonesia, and in other places, was just very impressive. I think it has been very sad to see that decline. I suppose it is inevitable, as some of the older people left, and some of the

problems just became so immense. One of the exciting things about the staffing of AID during the time I was there, and I'm sure its continued, is that it has benefitted a very large degree from the Peace Corps. There were large numbers of Peace Corps volunteers coming into AID as staff, many of whom had learned how to work well with their counterparts through the Peace Corps experience. That, I think, is one of the many, many benefits that the Peace Corps has provided the United States.

*Q: Some people feel the agency was too process oriented. Was too caught up in its own ways of processing, in programming, logical frameworks and all that sort of thing, and therefore was not really giving adequate attention to the substance, and to working with the country.*

SHAKOW: Well, maybe it has become more so lately. It was not my impression that that was the case during the 1960s and early 70s. Of course, there were procedures, there were processes, people were always complaining about the bureaucracy, but it was very important to have methods of evaluating what we had done. AID was the first to really put in place some of these valuable evaluation systems; to establish benchmarks, to know actually what was happening. While I, unlike you, have not kept up with that sort of thing, I just think that was a very important part of this. If that is seen as process oriented, well, undoubtedly it could have been done in different ways. But my impression is that it was AID in one way or another, and particularly AID people in the field, who were at the cutting edge of many of the important new developments in how development was to be carried out.

You can go back, I suppose, and look at all the work that was done on health issues, on agriculture, on urban questions. Technical assistance was provided over several decades by American university people who spent their lifetimes working both in the U.S. and in the field. The AID programs had a very strong component of dedication and often great impact. I think if you look at the performance of a lot of developing countries over the years, the AID role is strong in that. Much less so recently.

*Q: Viewing the U.S. foreign assistance program and AID's role and so on. Was there something unique about its contribution to the development business over the years, or not? You only mention a couple of those, but what else would you think was significant?*

SHAKOW: Well, first of all, it was a global program. I guess that characterized it. Probably because the United States was the big power, and had an interest for foreign policy reasons in having programs nearly everywhere. And to the extent that that also meant there was learning taking place across these different geographic lines, it gave the U.S. AID program an opportunity to be both a better teacher, as well as, in a sense, a better conveyor of ideas from one place to another. No other aid program, I think, had that kind of reach.

The resident mission approach was also a critical factor. There actually were a sufficient number of people in each country to carry out a program. Some people would say that there were too many AID people simply there to help the AID staff, to take care of the

housing and all the rest. Maybe that is true. But the fact that there were large numbers of Americans working with counterparts was very important at the time that this was going on. Many of these countries did not have very much contact with the outside world.

I'll contrast, and I suppose I did this the last time, the Indonesia program in 1960, when it had a very heavy technical assistance component. There were 300 Americans there. The whole cost, I think, was 25 million dollars. In 1970, when we were very much into program lending, balance of payments support and PL480, it was 300 million dollars with only 25 Americans. But it was very important early on to have a lot of these Americans there, working in different fields. You could say maybe that was excessive, and in some countries the numbers diminished and gained more focus, so it wasn't quite so disparate. But that, I think, was certainly an advantage of AID in those days.

What's really interesting to me at this point is that when I first came to the Bank in the early 1980s, I couldn't understand how the Bank could accomplish all its goals operating from Washington. So I went around and talked with people here and was told it was very important not to have these large field missions, because people would go native, they would become agents of the government, they would become a crutch for the government, and so on. So the Bank didn't really buy into the notion that had led AID to establish these very significant resident missions.

In the last year and a half, the World Bank has radically moved in the direction of putting people into the field, with Headquarters' people and local people, of which there are now, of course, many more who are capable of working in these programs. So in the Bank we see total reversal, a substantially changed approach. We now have something like 22 country Directors in the field with the responsibility for running those country programs, essentially real resident missions of the kind AID used to have in the field, and which now AID has very few of, I guess. And this is because the Bank has now concluded that it can be much more effective in working with governments if it is there, on the ground. I came in 1981, so it is now 15 years later that the Bank finally came around to what AID was pioneering and doing very effectively many years ago.

*Q: What about some of the sectors or technical areas? Where would you think AID's role was particularly significant, or of the U.S. foreign assistance program?*

SHAKOW: Well, if you go back far enough — and I remember when I first came to AID and began working on Indonesia — it was AID that was responsible for helping to build the big fertilizer plants, and some of these other significant investments, which in places like Korea and Indonesia and elsewhere were very important. So I wouldn't diminish the importance of that. AID had quite a lot of resources, working with the World Bank and others who could put this kind of program together. Later that became less important, partly because the World Bank was there with larger amounts of money, and AID began to focus more on the social sectors and some other areas.

I think AID led the way in these sectors, particularly when we moved to the period of the "New Directions" legislation. AID had begun, in the early '70s, a lot of investment in

human capital. The World Bank's 1980 World Development Report stressed the importance of education, health, nutrition, family planning and so on. These were areas in which AID had been central, and a lot of the learning had come from that. A lot of the experienced people who came to the World Bank, in fact, were people who had cut their teeth in India and elsewhere working on these subjects.

The Bank was able to capitalize on that. I suppose, for a while, it was U.S. experience, expertise and knowledge that was predominant in virtually every field in which AID worked. That's one reason we had all these field missions filled with people in technical assistance and agriculture. The emphasis upon the revolution in rice production and other things, while it came from IRRI [International Rice Research Institute], a lot of the work was being done by U.S. agriculturalists in the field, whether they came from the University of Kentucky, or from some other American universities. They were part of the USAID program and carrying the message out. Virtually every field you touch, it seems to me, AID could probably claim at an early stage to have been the promoters.

They then fed into the World Bank and the Bank picked up and became, with more resources, very dominant in that area. But even in some areas you still think of the U.S. as being the most effective. Recently, I guess, that has been much less true. In looking at country strategies, and working with countries to develop strategies, there has been coherent approach. We probably talked a lot better game than we actually implemented. Partly because we were working in a number of areas, partly because we were less prone than others to be simply pushing exports from the United States, unlike some of the other AID donors. It meant we had a better chance at agreeing with governments on priorities, and knowing what the left hand was doing when the right hand was doing something else. Now, again, this may be an overly rosy view, because I'm sure a lot of mistakes were made. But I think we were sensitive to those kinds of issues in AID, and we kept on asking those questions. We always railed against the Congress, of course, because it was a pain in the neck.

I don't think, as I was saying last time, that we would have had this emphasis in the AID program in the mid 70s, in fact, we may not have had an AID program in the mid 70s, if it had not been for some farsighted people in the Congress who picked up on what some even more farsighted people in AID saw as important ways for us to make our contribution. I think one of the problems with the AID program today or recently has been that they haven't been able to really focus very much and that has been a lot harder for them.

*Q: Turning to another dimension. Of course in your role in PPC, there was this interaction between U.S. security, political/interests and development objectives. Do you think that those security interests and the pressure behind them help or hinder the development process? How would you characterize the interrelationship of the two?*

SHAKOW: I guess, offhand, I'd have to say it hindered the development process. The determinations of allocations under the Security Assistance program were not made on the basis of development priorities. They were made for political reasons. I'm quick to

say, as I said a little earlier, that the U.S. foreign aid program is an expression of U.S. foreign policy and one always has to keep that in mind. That's why I think it is important to have both bilateral and multilateral programs. It is in the U.S. interests that there be multilateral programs which are designed and developed without reference to political interests of the United States. But it is perfectly fair that the U.S. should be able to allocate resources to places where it is important that the U.S. Government have an influence. Now the Security Assistance programs are obviously the most overt programs of that kind and justified on that basis.

We spent a lot of time trying to influence the allocation of resources to Israel and Egypt after political decisions were made about those sums. We worked very hard to see if we couldn't change the nature of that relationship so that any reduction in these massive programs that had been decided on political grounds could be undertaken without seeming to be losing respect for, or indicating a lack of love for, these particular countries. We sometimes got a little move in that direction, but we never got very far. Those AID programs today, in Israel, Egypt, a few other places, are still of doubtful impact for those reasons.

Base rights were always one of those things that made life complicated. Because there were big AID contributions to bases in the Philippines, for example, we tried to make clear that these were to be programs solely for political purposes, and we should not even pretend to try to make them developmental — get them out of AID's budget, put them in the Pentagon's budget. But, no, efforts were made to mix these two to pretend to do something developmental; the political priority was clearly there, and we had no choice about it. The Pentagon didn't want them in their budget, as it would enlarge their budget. They were in the Security Assistance budget, and that is where they stayed. Probably State Department wanted to keep them, too; I've forgotten the details. Anyway, there were years in which obviously there were tradeoffs between Security Assistance and Developmental Assistance. When you come right down to it, the bottom line on foreign aid included these pieces, as well as a few others. And so there were struggles with the State Department at that time on trying to see what we were prepared to propose, and then there would be arguments with OMB on how the ultimate amounts were allocated.

I suppose Egypt was probably the best case where there was a very big program. In the case of Israel, there was no real effort at development at all. I mean, that was just writing a check. But Egypt was a country in great need of development, and without substantial resources. We had a very big mission there, as you know. So everything was 'projectized' or in one form or another was designed to be a development project. The only problem was the total amount was known in advance to the Egyptians. It was obviously very difficult for the AID people in that country to be very tough about negotiating terms, if everybody knew that in the end that they'd have to concede that the full program was going to be delivered no matter what. We made some inroads. I think I told you that people like Cyrus Vance and Warren Christopher and Tony Lake were interested in making the most effective use of some of this aid. But, frankly, I doubt that we really accomplished very much from a developmental standpoint.

*Q: Was that also happening in the Developmental Assistance category?*

SHAKOW: We were allowed more latitude. I guess there was a time, and this is an area you know better than I do, when there was some Security Assistance to Africa, too. You worked very hard to make that useful and substantive and so on. I've forgotten exactly how we came out on all that. On the Developmental Assistance side, the State Department had little influence on how that was used, as I recall. We were battling among ourselves, and we would have to go up to the Congress and present details about every single project. The State Department came into it when they wanted to influence overall allocations to countries. And I mentioned, I think, the time that IDCA wanted to eliminate certain countries. It was State that insisted that their Ambassadors needed some money in these countries, and so we couldn't cut them out. But, by and large, the number of cases where there were fundamental arguments with the State Department on country allocations were relatively few and far between.

*Q: And were there specific projects that they wanted done for political reasons?*

SHAKOW: Not very many. I don't remember any overt cases of that kind. I'm sure there must have been some things that they were pushing, but for the most part, no. I think they did visualize the country allocation amounts as being particularly important.

*Q: Did you travel around to these countries?*

SHAKOW: I traveled to some. I can't remember exactly where I went, but I certainly did travel around and saw some things in the field. Not as much as I'm sure you thought I should have, and as much as I would have liked to, because there were too many things going on in Washington. But PPC staff traveled quite a lot, and the budget people and others were going out to the field to at least get a flavor of it. So they were not totally "bean counting" types.

*Q: Looking back over the years, and we're talking now about the U.S. foreign assistance program, did it make a difference? People are always worrying about impact and people go back and say, well, we don't know where all that money went, we don't see any impact, it just seemed to all go down that proverbial rat hole and all that. We can't see any evidence that U.S. assistance made a difference. How would you respond to that?*

SHAKOW: I think that's completely wrong, of course. We're always frustrated by not seeing as much progress as we would like, and there is no doubt that certain things that money was invested in have ended up rotting by the roadside, or not being sustained. But if you go back, and you think about what the world was like in 1960 or 1955 or 1950, for many of these countries, and if you think about what it would have been like without U.S. leadership on getting some of these programs started, the contribution is great.

I mean, just take the family planning programs. Probably the U.S. has been the leader in introducing the importance of information and adequate understanding of the issues and provision of supplies, and all the other aspects of family planning, to address population

programs. And while certainly the growth population of the world has still been significant and continues to be, it is so far below where it was before, or where it would have been without any interventions. You don't have to get into debate, with Julian Simon and others, about the importance of this. Certainly the limits that have been placed by families, by couples, on the size of their families, has been an enormous contribution in just making it possible for the standard of living, and the welfare of surviving children and families, to be much, much better.

You start looking at the statistics and the data on level of nutrition, and child mortality, and a lot of other things. It seems to me that was a very important part of the AID effort. Now it is not AID by itself. It is AID working in concert, of course, with the governments, with UN agencies. Certainly some of the kinds of things UNICEF was involved in when Jim Grant was there. A lot of things of that kind. But AID was there right at the beginning, whether it was family planning or focus on health or education. I think the world has seen enormous strides in those areas. There are certain countries that are still far behind. I mean it is pathetic the degree to which education — particularly for girls — has not been attended to in places like Pakistan. But there are a lot of cases you can look at in terms of these social sectors, the investments in some of these is very substantial indeed.

I think we all look with some concern at what has happened in Korea recently. But Korea is a case where even when I came to AID, it was a basket case, not quite like Bangladesh, but people were calling it one, I think, in about 1963. And then you saw what happened there, and I think AID, particularly, was heavily responsible for the support that it was able to give and substantial amounts not only of technical assistance, but financial assistance, that helped put them on the track.

Intellectually there just isn't any question that the American contribution and thinking about development, and approaches to the issues, were paramount, in the 60s anyway. And, again, some of those people came to the World Bank. So some of that moved over into the World Bank and AID, perhaps less so, and the Bank more so, whether it was people like Hollis Chenery or Ernie Stern or other people. But they all cut their teeth with AID, in the 60s particularly. And Indonesia, which is now in a very depressing state, certainly a lot of the changes that took place there AID was deeply a part of. And I think if you look around Africa, where there are successes, though there are not as many as one would want, AID has been a part of that, too.

*Q: Of course, we think a lot of the earlier projects were successful when we were active and they looked like they were doing their thing. But they weren't sustained. What were we missing? What were we not doing? What did we miss in the process of our assistance program?*

SHAKOW: I guess what we argue today is that projects done in isolation from sensible policies don't work. I think that you can exaggerate that point too much. In some cases AID was, of course, working on policies. In Latin America, I guess, some of these program loans were designed to improve policies. I don't know that story too well, but to

an extent. In the end we learned (and maybe it is strange that we didn't realize all this at the same time, but it comes from experience) about the importance of the mix of attending to human capital development, human resource development, family planning issues and so on. At the same time, you're trying to get the policies in place that permit people to actually carry these programs through, their investments through, and sustain them, taking more and more responsibility upon themselves. But it seemed to be in a lot of those areas AID was doing some of those things.

*Q: Were we worried very much about what they now call governance, about the political processes in the country?*

SHAKOW: I'm trying to think back to Indonesia in the early 60s, if we go back that far. It was not thought very much that AID donors could impose their will on the politics of countries at that early stage, although what was driving things was the Communist menace. So the U.S. was prepared to put a lot of money into Zaire, and elsewhere, when it really didn't make sense to do that, because it was crucial for political reasons. So I suppose from that standpoint everybody was a little bit behind. Even today there are arguments as to how far you can go for that sort of thing. So I suppose that's right, but there are changes that have to take place from inside the countries and they couldn't have been taking place from the outside. I doubt that if AID had simply held off putting money in, it wasn't going to change the world at that stage. I don't know. But every one of these countries needs to be looked at carefully, and on an individual basis, as you know better than I do. Some took the initiative themselves and others failed to.

*Q: Any other general observations you'd like to make about AID or the U.S. foreign assistance program in your experience?*

SHAKOW: Not at this stage. I think I've probably talked too much already. For me, personally, it was a terrific experience. AID treated me very, very well. I had a wonderful time. I had a chance to move from working on a specific country which was very exciting to me, and very interesting, at a time when it was just really moving up the scale from a disaster; to taking on all sorts of interesting new approaches; to being responsible for this really fascinating bureau of policy, and having an overview of the entire system. So I learned an enormous amount from that, and am very grateful to AID for the opportunity to have done that.

### **World Bank experience - 1981-present**

*Q: Okay. Well, let's turn to your work in the World Bank. You said you have been in the Bank for 18 years? When did you start in the Bank?*

SHAKOW: On January 20, 1981, a new Administration came into power in the U.S. Government. With some anticipation of that, I had begun to look around for other opportunities since, even though I considered myself a career staff member, I was, in fact, in a Presidential appointment approved by the Senate. So, I knew that come January 20, I would have to submit my resignation. So I had by then lined up an opportunity to come to

the World Bank, and when the new administration came in I stayed on at AID for awhile to help with the transition.

When Peter McPherson came to be the Administrator of AID, he asked if I would stay on with the new Administration. He wanted me to stay on as Assistant Administrator for PPC. But, by that time: I had already said I would go to the Bank, and I really doubted that he would have been able to get me cleared, even though he had been head of the personnel work at the White House. I suspected that given the fact that there was a fairly tight screening process, that anybody who had worked in a Democratic administration was not going to get cleared by the new administration. But I did stay on until the middle of April to help in the transition, to help prepare Peter for his presentation on the Hill and so on, and that was quite interesting.

*Q: Was there anything in particular about the transition process?*

SHAKOW: Well, there was a major effort to cut back multilateral funding, as I recall, and I was involved in trying to prevent some of that from happening. It was a bit odd. I was going to the World Bank, and there was a major effort to cut back the IDA programs.

What was very interesting was that when Jack Gilligan came as AID Administrator in 1977, and we prepared him for Congressional testimony, one of the major areas of interest, and an area on which I wrote a significant amount of Congressional testimony, was on how AID was going to work together with the private sector, and to promote the private sector. What was interesting was that when Peter McPherson came in, and was preparing for Congressional testimony, one of the areas he wanted to emphasize was how AID was going to work together with the private sector to strengthen the private sector. So I basically took the same stuff I wrote in 1977 for Gilligan, and recycled it in 1981. There really hadn't been all that much done. It was just very difficult for AID to do too much.

*Q: What was your message in those papers for two different administrations?*

SHAKOW: I'm sure that level of generality was not one that spelled out a significant number of actionable programs, but more expressions of interest in, and support for, collaboration and partnership, and so on. But, as I think both Gilligan and Peter McPherson found, it's a lot easier to talk about than to do. And, was it Peter McPherson who brought in Elise DuPont to be in charge of this area? While there had been some skepticism at the time from people who said she really hadn't had much experience in this area, I said I thought that that was really a great choice. If there was ever going to be a time that AID could develop a strong relationship with the private sector, it was going to be then. If anybody could do it a DuPont would probably have the best chance. Anyway, I think it turned out to be still very difficult for Peter McPherson and that crowd.

I stayed until about April 10 or 11 of 1981, and then I came to the World Bank as a Policy Advisor to work with the head of policy for the World Bank, Mabub ul-Haq. He

was a very outspoken leader in the Bank, particularly concerned about developing countries, and often not on exactly the same path as McNamara or others, but McNamara relied on him heavily as his source for views from the developing countries. So that was when I came to the Bank, and it is now July 1998, so it has been about 17 years so far.

*Q: What are the different roles you've had over that period of time?*

SHAKOW: I came first as a policy advisor, which meant that I was able to be free of administrative burdens for the first time in many, many years. It was a relief to move out of running a large bureau in AID, and then finding myself at the Bank with just a secretary, but working in a group of people who were concerned over policy issues for the Bank. One of the first things I did was to take responsibility for writing a paper for the World Bank Board on graduation policy from IBRD, which was an interesting subject to pick up at that stage. It helped me learn something new and important.

So, quickly, what I've done at the Bank was, first, as policy advisor in this policy department. Then I was head of a policy unit in the country policy department and dealing with, again, the Bank's policy statements and getting policies prepared and issued and coordinating that whole effort. Then, I moved to the International Relations Department and worked with the Director on such issues as the Development Committee, the OECD, DAC and a whole series of things, many of which paralleled what I had been doing in PPC.

Then, during major reorganization of the World Bank in 1987, I was made Director of a new department for Strategic Planning and Review. This was an outgrowth of some concern that the Bank had not paid enough interest to the debt issue, as it was emerging, and other concerns that were of global significance.

*Q: This was global strategy, not country by country?*

SHAKOW: That's right. So it was a strategic planning group, and I also had responsibility then, and still, for things like the Development Committee, which is the group of finance and development ministers who provide policy advice for both the Bank and the IMF. I was in the Strategic Planning job for about three years. Strategic planning is always a tricky area, and you need the CEO to be your client, without that, as you step on enough toes, some people decide they don't want to have the function around any longer. We raised a number of issues from our vantage point, and the Board of Directors got very interested in some of those things. I think management concluded that maybe we'd do better not to have a separate group of that kind, so the strategic planning function was eliminated.

*Q: What were some of the other topics you touched on?*

SHAKOW: Oh, we touched on everything from what kind of a new relationship there should be with Japan as an emerging source of resources, to scenarios that projected what would happen if the world changed radically, or if there should no longer be any support

for IDA. What were some of the other things we were looking at? How you could move the Bank to a position where it actually could make choices among priorities, which has always been a difficult thing for the Bank to do. You needed to make choices, since you couldn't do everything, despite the fact the Bank was asked to do everything. Would one avenue be closer partnership with the regional development banks in dividing up responsibilities? In those days that was seen as a terrible thing to be proposing, but now we talk very strongly about partnership. Things have changed over time. Anyway, there were many issues that we touched on, many of which are coming back now to be major issues for the Bank.

Then I was made head of the policy department and after that, in about 1990, was made Head of External Affairs for the Bank. I held that until 1994, at which point I moved back into doing policy work. About three years ago, I was made Executive Secretary of the Development Committee, and a year or so ago was made, in addition, Deputy Secretary of the World Bank Group. I have had positions that have given me a broad overview of the Bank, not positions that were directly in the operational line, but more in the policy area and in links with the outside world.

I was trying to think of what it was I was going to get started on telling you at the beginning of this process, when I first came into the Bank. Anyway, Mabub ul-Haq was the head of this policy department, and this was a time of great change in the Bank because it was the very end of the McNamara period, and the beginning of the Claussen five year period as head of the Bank. So, while I worked on graduation policy, very soon thereafter one of the questions that was on everybody's mind was this - had the Bank, as a result of the coming of Claussen and the oil crisis and so on, given up its real focus on poverty?

McNamara had put the Bank on the map as a place that was concerned with reduction of poverty, and this was uppermost in his planning. And so, I was asked to do the work for a task force that was made up of eight or nine key officials of the Bank, key department directors. I, along with Michael Lipton, who is a great scholar on poverty issues from England, were the Secretariat for this group. So that also gave me a great opportunity to find out more about the past of the Bank, as well as to dig into what was really going on. We made a report and made recommendations. We presented findings that suggested that, indeed, there had been some diminution of attention to poverty, but that we should not get mesmerized with the idea that during the McNamara period everybody was working on poverty reduction — as they were not. We needed to clarify some of these things.

*Q: You were obviously at a central point throughout this time in terms of major evolutions in the Bank. How do you view change since your beginning, and what are the significant areas of change that occurred, if any?*

SHAKOW: The Bank has certainly changed. It is undergoing further change right now. The Bank, when I came, was still very much focused on big projects and had not yet begun to do very much that you would consider real social sector lending. It hadn't made

any freestanding health projects at that time. There were certain health activities thrown in with other programs. Its education programs were almost entirely buildings. So, you had a Bank that was loaded with engineers and some technical people and some economists. But you didn't have very much attention to social sectors in terms of the real social issues. You didn't have social scientists in the place. You didn't have very much attention to political economy questions. These were all things that now are very strong features of the Bank; I won't say dominant, because economists are certainly still a central force in the Bank. But there has just been a strong move, and particularly during the Wolfenson period, but not limited to that, of paying attention to the social issues, being much more concerned about some of these things that I was saying.

AID was interested in who benefits and wanted to be sure we were actually getting results somewhere on the ground. So, too, at the Bank we are doing much less of certain kinds of infrastructure. We don't do railway projects any longer, port projects. We do telecommunications; we do some other things that certainly would still be in power. But, if you look at the lending programs, they changed over this period. The fastest growth has been in the social sectors, which the Bank virtually was out of except for the building projects. So that, I think, is one major shift that has occurred over this period. The composition of the staff is another thing.

There is much more attention now to the private sector than before, although the Bank still has problems itself in sorting through what its role is in the private sector. Poverty reduction has gone up and down in terms of a rhetorical goal. The words which we were writing for the President a few years ago, said the overarching goal of the Bank is the reduction of poverty, or in some words, the alleviation of, or elimination of poverty.

*Q: But you talk about it as rhetorical. What has happened?*

SHAKOW: It has gone up and down on the rhetoric. In practice, I think a lot more has happened as a result of the Bank's focus in on poverty. The Bank is a great source of research on development. A lot of studies have been done which will help countries understand what their own situation is, and where the most effective interventions are. The Board consistently asks the question of how country strategies, which are now again a part of the discussion, not only in the Bank staff, but with the Board, have focused on poverty reduction.

*Q: Does the Bank understand what is required to reduce poverty?*

SHAKOW: Does the Bank understand? I think to the extent any of us understand, the Bank has been learning. Every decade the Bank does a World Development Report that helps us learn even more about what needs to be done. There is work underway on the World Development Report for the year 2000, which will focus on just this question. I think we have learned quite a bit, but we are still learning. Obviously, some mistakes have been made, and we're back to some of these questions you were asking earlier. If we can lose in Indonesia the momentous gains that have been achieved over the last two or three decades on reduction of poverty, if you can lose those in a matter of months

through the chaos that has occurred recently, then I guess we haven't learned all that much.

What else has changed?

*Q: What about the other area, getting into program lending, which was not a Bank area earlier?*

SHAKOW: Certainly about the time I arrived was the beginning of structural adjustment lending. And, yes, I mean that was an area of considerable controversy. It in some cases reached as much as 25 percent of the lending. It probably is going to be about that much this year, because we are doing so much of a very different kind of lending now, which is raising real problems. That is, essentially doing IMF type lending to places like Russia and Korea. Its money that is balance of payment support in crises circumstances.

*Q: Is the Bank getting out of its role in the process?*

SHAKOW: There are questions about that. In fact, I don't think there is any doubt that it is out of its proper role. There isn't much alternative at the moment, because the shareholders, in particular the richest ones, would much rather call upon the IMF and the World Bank and the Asian Development Bank to help solve these problems, than to provide the resources themselves. So, the pressure is on, and that's a big problem for the Bank, even as we speak. But when we started structural adjustment lending in the early 1980s, there they were program loans. But they are tied to a series of very stiff requirements.

*Q: What about the evolution of the conditionality issue, which was always very controversial?*

SHAKOW: This is related to the point you were making earlier about whether projects work in a setting where the policies are not right. Without getting into the extremes of this, certainly the view on the structural adjustment programs was that we had to do something about the broader policy framework. At first, these started to be very broad and dealt with macroeconomic policies and trade policies and things like that, and that continued. But we also then began to move toward recognizing that in certain sectors you needed much the same sort of thing, and so it became much more focused over the years. We don't use the words structural adjustment lending very much. We are talking about lending for reform and other things, partly because structural adjustment lending has taken on a very bad odor publicly, because it is seen as having certain onerous responsibilities and high costs in terms of social factors.

*Q: And anti-poverty reduction.*

SHAKOW: Right. Except that, in fact, as Barber Conable, the President during the middle 80s, late 80s, was prone to say, you don't want to blame the medicine when you should be blaming the malady. These countries needed to change their policies. The

problem was, could you define a way to do that which would also, at the same time, protect the poor. So the Bank, after being pushed and shoved a bit by UNICEF and others, did begin to pay much more attention to the social implications of some of these programs and began building in social safety nets and other kinds of programs that were designed to complement the policy initiatives. Yes. That was a major change in the way the Bank had been doing business.

*Q: Let's talk a little bit more about your own role in all these processes and change. How did you view your own role in this?*

SHAKOW: This is a big place. I was a newcomer. When I first arrived at the Bank I was told a story by a staff member, a former colleague from AID, who had been the Indonesia Director, Stokes Tolbert. He had been at the Bank a long time, and had been seconded to AID, and then was back in the Bank. He was the last Director of the Tourism Office at the Bank. He said he had been told when he arrived by one of these old colonial curmudgeons, who were so much the heart of the Bank in those early years, that you really could not expect to make a significant contribution in the Bank until you'd been here 10 years. After you'd been here 10 years, then you could probably understand enough that you could make an impact. So I figured in the first 10 years, I wasn't going to do very much.

Now the Bank has changed quite a lot, of course, because it has a lot of very new people, and a lot of these old timers have gone. It's a very different generation. Now, with my 17 going on 18 years, I'm beginning to be an old timer around here, but that was not the case when I first arrived. The Bank is a fairly ingrown place — or was a very ingrown place — you had people coming into the Bank, often in mid career or often as young professionals. Either way, they came in and they stayed — the young professionals in particular. This program began in about 1963, to get bright young people. They came into the Bank, and they were on a track that would ultimately lead to their being in charge of most of the business of the Bank. These were the best and the brightest. These were people chosen from a worldwide competition, and they were very bright people. The problem with that system, though, was that these people did not have very much experience working in government or in the private sector. Particularly, then, they were being brought in at the age of about 23, 24, so they were bright people often out of school, often with Ph.D.s, and not much work experience. So, they didn't really have a lot of experience of working in other parts of government.

*Q: Or from developing countries?*

SHAKOW: Right. Some of them came from developing countries, of course, although many of them came from the same kind of backgrounds that Americans and the British came from. They all went to the same schools. They were at Oxford or Cambridge or the London School of Economics or Columbia, Harvard, Chicago or Berkeley. So that helped a lot to make this place more manageable, where people could work together because, even if they came from a hundred different countries, as they were funneled through this common educational system. But for the young professionals, their whole life was the

Bank and partly that, I think, fed the sense of arrogance that some people complain about finding in Bank people, which is not inaccurate.

These were very qualified and competent people. But they also then felt they had less need to pay very much attention to what the outside world was saying. So I came in from this kind of AID experience, and being concerned about things like the DAC and other donors, and what the Congress of the United States thought, and how important that was to support for the AID programs. I just came with a much more open view about what was important, and why it was important to move the Bank towards being much more sensitive to these issues.

I tell you, this was very much of an uphill battle. The most difficult time I had here was as Director of External Affairs. That was a time, particularly, when the Bank was coming under heavy criticism from nongovernmental groups for its investments in large infrastructure projects like the Normada dam project in India, which was a major controversy. This led to 'Fifty Years is Enough', a group of NGOs who were encouraging, in some cases, the closing down of the Bank; others wanted to change its nature and shift its focus. The Bank was really not very well equipped to deal with that.

First of all, I'm not really a public relations person, and we were dealing with very astute critics on the outside who used every device available to them. I argued for some time that we ought to get a professional to deal with these things, partly because the Bank staff in general was not very interested in addressing the outside issues. The President of the Bank was a wonderful person, but he was not very outgoing person, and did not enjoy dealing with these kinds of questions. So, all in all, efforts at trying to open the place up moved very slowly, even though the pressure from the outside to do so was considerable. Finally towards the end of my tenure I brought in some outside consultants and got them to tell people in the Bank what they really needed to do. There was a great deal more support once the outsiders said it, and finally we hired a very good guy who had a lot of public relations experience, and knew development as well, and was, thus, a perfect choice for this role.

But the Bank is now under President Wolfensohn and eagerly looking to the outside all the time. He has set a very different tone to the place and gradually that is seeping through to the staff. There are many new people coming in. The Bank now is much more attentive to what the rest of the world thinks. We recognize how important that is, both in terms of learning something and in terms of building support and confidence. At the time I was the head of External Affairs, even though I had been co-chair of the Bank NGO committee for many years, and done a lot of things in that way, the institution as a whole was not oriented towards looking to the outside. This meant that we were trying to address our critics without a lot of friends out there to help us; we were always saying how much we were doing, and how wonderful it was, but we didn't have a lot of allies to say it for us. We hadn't spent time during the McNamara period, or the Clausen or Conable periods, building alliances. Now, I would say, Jim Wolfensohn is doing a terrific job of that.

*Q: How did you go about changing the system? I mean, you can build these alliances outside, but you still have this core that is still very preoccupied with getting its projects done, and getting things out and not listening to outside messages and so forth. How do you get at that rigidity?*

SHAKOW: Partly it was encouragement. We, and others who were similarly inclined, were encouraging a more open approach. But I think what began to happen is that a lot of staff encountered these NGO critics and others, and began to find that they couldn't avoid dealing with them. The member governments became very interested in having some help in defending the Bank or taking a more positive approach to these contacts with the outside. I think people began to realize that most of these critics really were interested in improving the quality of development and that they were not all adversarial, even though they sounded like it. There certainly were some that were doing this not only because they saw openings, but because it was great for their organizations. But many of them are very sound, sensible groups representing various interests, and you could engage them in serious debate and discussion. The more you talked, the more you showed them what you were up to, the more you explained what you were trying to do, the more they knew you as human beings, rather than as cold institutions, the better the chances were that there could be collaboration and cooperation. I think that was an important part of it.

There was also the fact that just like in A.I.D., when the Congress of the United States and other Parliaments began raising difficult questions, and it meant that IDA money was at stake, and other resources were likely to be constrained, its interesting how fast that can get your attention. I think the passage of time, the encouragement, the pressure from outside, encouragement from the inside, these were all elements of it. I don't mean to say that everybody here is comfortable now in working with the outsiders, but there has been a very big increase in willingness on the part of people to work with others, and, indeed, the real desire to do so. There has always been a desire to work with others in the sense that World Bank staff wanted to get money from bilateral donors, but that was a one-way street. Its the two-way street business, and the opening up, and being open to criticism and listening carefully.

*Q: What about changes in relationships with the recipient countries, the most important relationship of all?*

SHAKOW: As there has been more talk of, and indeed in many cases action on participation, ownership and so forth, that's helped. As we have begun to put people in the field in the last two years, it has helped considerably. I'm told by people who know about such things, that our relationships with the governments where we now have these resident missions are just miles better than before. I think increasingly people are sensitive to the fact that there are many skilled people in these governments now, many beyond where they were before and that our own people have got to be very much on their toes.

*Q: But as that relates to what is happening in the developing world, the context for the Bank has changed. Apart from, of course, more professional people within the countries,*

*are the problems essentially the same?*

SHAKOW: Well, as we know, the range of developing countries is vast now and those differences are much greater than they used to be in the early 60s. The Bank is now working with really impoverished tiny countries in Africa or in the Pacific Isles, or wherever, on through the Korea and others at that level. The range is enormous. The ability of people to work in these countries is being tested at all different times. I remember when the Bank first went to Russia, that it was very difficult. People who had been used to working in Mali, or someplace like that, all of a sudden are confronted with a super power, but a super power in desperate straits. So, I think, a lot of changes have occurred in the world in which we work. As a result, Bank staff had to learn a whole new way to do business. And I think a lot of them have. A lot of people in the Bank have had to become more sensitive to the increasing strength of people in these countries. These people don't have to borrow from the Bank. There may be greater pressure on some than on others, but this is a very large cooperative. The staff of the Bank work for this cooperation, and these countries are members.

*Q: You had a long association with the Development Committee, both earlier and now in your current role. What does the Development Committee do, what is its contribution to business?*

SHAKOW: It was set up in 1974, at the same time as the Interim Committee. This followed discussions among the major powers of how to deal with a changed global financial and monetary system, post Bretton Woods, or the breakdown of the Bretton Woods system. Anyway, the Interim Committee was set up to look after international monetary affairs, and at that time the G-20 decided, as a parallel, to set up a committee to transfer of resources chaired by a developing country finance minister. This would be a joint Bank/Fund Development Committee.

It started off with a fairly big staff and rather large hopes. But, I think, before too long McNamara, who had been an original supporter of this, realized that it was going to be used as a way to constrain or restrict him. So, before too long, it was cut back down to virtually no staff, relying instead on the staffs of the Bank and the Fund. But the basic reason for it was to serve as an advisory body to the governors of the Bank and the Fund and, in practice, to the Boards of Executive Directors representing all of the Governors on issues concerning the transfer of real resources (I've never known what 'unreal' resources are, but that's the way they wrote it). The Committee's agenda has been broadened over time so that it covers not just resource transfer in a narrow sense. We dealt with issues, over the years, of trade policy, of the environment's links to development, debt questions, and all sorts of matters, ones that are financial and those that are not so financial; those that are more clearly developmental and those that are slightly less so.

I first became exposed to it when I started working in 1983, I guess, through the international relations department at the Bank on the World Bank side of this. As I say, its been chaired by developing country ministers through a rotation system.

*Q: Are all countries members of this?*

SHAKOW: All members of the Bank and the Fund are members through their constituencies. But there are 24 members of the committee itself, and those rotate just as the Board Members in the Bank and the Fund do.

*Q: Does it duplicate the Board?*

SHAKOW: Its intended to be at a political level, addressing policy issues of importance to both institutions. Occasionally there are some concerns that it may be doing things that the Board could do. On the other hand, to get a political level endorsement or support for something, or to get that kind of debate going on, is considered to be useful.

*Q: These are all Ministers of Finance?*

SHAKOW: They are either Ministers of Finance or Development and, in one or two cases, of Foreign Affairs but basically they are Development. There has always been an Executive Secretary, but that person has generally, up until my appointment, been an outsider who was nominated by a government. In this case, since you have a developing country as the chairman, the Executive Secretary has always been from an industrialized country. Before I came along, these jobs were held by people who had been nominated by their governments. They were then voted on by the committee.

It had seemed to many, including the last incumbent of this job, that in order to make this job effective, the Executive Secretary had to know the Bank and the Fund very well, and so it was better if you were part of it. The rules were changed a few years ago and now, at the nomination of the Managing Director of the IMF and the World Bank, the Executive Secretary is selected by the Committee. That is how I came to be in this job. But as I've been working on it on the Bank side for many, many years before this, I have a long familiarity with it. It has had its ups and downs.

It is very difficult, if you have a committee that meets twice a year dealing with policy issues, for it to be as effective as one would want it to be. Also the membership rotates quite a lot, so you don't have all the same people there each time that you get together. So, you don't build up camaraderie. On the other hand, along with the Interim Committee, these are the two established committees of the international financial and development system that represent the entire spectrum of countries. That is an important element and one that, particularly when you have the Bank and the Fund providing the staff support, gives you a vehicle for looking at important questions. It was in the Developing Committee that the Global Environment Facility (GEF) was first proposed; it's where the Special Program of Assistance for sub-Saharan Africa (SPA) was proposed and initiated; it's where the Heavily Indebted Poor Country (HIPC) initiative was started. Pressure from countries there is what moved the Bank and the Fund to take the subject of debt up in a comprehensive way for the first time. And now you have the champion in the form of Jim Wolfensohn.

If you go back over the years, you can see a number of cases where it was a question of having a group of Ministers meeting, an opportunity for them not only to exchange views but to put some pressure on, which has worked to the advantage of the member countries. But it has always been a somewhat frustrating experience for people because it is hard to figure out exactly where it fits in. We've changed the procedures now so that the formality is much reduced. When I arrived there was a plenary session lasting all morning long in which Ministers came in and read speeches, and that was all that happened. Well we've cut that plenary down to less than an hour. Members hear from the President of the Bank, Managing Director of the Fund and Chairman of the Committee, and maybe an outside guest, and the rest of the time is spent in restricted session. There the Ministers, with just a very small number of associates, sit together talking about difficult issues. Whether its hammering out solutions to the debt problem, or worrying about how to deal with the corruption issue, or looking at the follow-up to the Asia crisis — these are occasions where there are really interesting interchanges, if things go well, if we prepare for it properly with the Secretary of the Treasury of the United States, the Chancellor of the Exchequer of the United Kingdom, the Finance Minister of Brazil, and the Nigerian Finance Minister, you've got quite an interesting collection.

*Q: Who decides the agenda?*

SHAKOW: The agenda is recommended by the World Bank President, primarily, but with the members themselves playing an active role through the Boards of both the Fund and the Bank, but particularly the Bank.

*Q: Do you have a particular approach or topic?*

SHAKOW: More of what we are trying to do now is to have the Committee build major issues being addressed in the Bank and the Fund — including this Heavily Indebted Poor Countries' debt initiative, some of the follow-up to the Asia crisis and the so-called international financial architecture, the issue of income dynamics in the Bank, and what to do about post conflict countries (an issue coming up this next meeting). We are trying not to let this just be a seminar or talk shop, which is what it once was, but to be focused on policy issues that are hot and where there needs to be some Ministerial level involvement, either to get their buy-in, get their support, get their attention to the issues, or to resolve questions, or advise how they should be resolved. Last fall in Hong Kong we did that to get an increase in the capital of the MIGA, Multilateral Investment Guarantee Agency — the equivalent internationally of OPIC for the United States.

The Chairman's lunch session is also private, just for the Ministers and for Wolfensohn and the Fund's Managing Director and myself. There you get these 28 people sitting around the table and with a chance to really let their hair down on topics that are important.

*Q: These are all from developing countries and the donors?*

SHAKOW: Whereas the DAC, as you pointed out earlier, is for the most part just the

developed countries and their aid ministers, the Development Committee is mostly Finance Ministers, and they represent the full spectrum of the 181 members of the World Bank and the IMF, but you get it down to a representative number of 24.

*Q: In the DAC, the donors have said that they want to talk among themselves; we don't want developing countries in with us, because we can't talk frankly to each other; is that right?*

SHAKOW: That certainly has been the view at the DAC for a long time and there is a benefit to that. But, increasingly there is a concern, because of the nature of the issues, there are a lot of other countries that are big players, and they need to have channels for communication with these other countries. And, so, the Development and Interim Committees provide one vehicle. The membership, because it rotates, is not always the best as perceived by the G7, as they would like to have the most significant countries in every region as part of these committees. We have most of them, but we don't always have them.

*Q: And you have to coordinate these different groups, I guess?*

SHAKOW: It is some of the same people. A lot of them go to the same meetings. There is a certain core that is the same at both the Interim and Development Committee, for example. Most of the G7 are the same and a few others are the same. But there are others that are different. Anyway, this whole question of where you can have the most useful discussions of these issues, in a forum that is both efficient, well prepared and likely to be deliberative in a way that can lead to results, is still a question mark for the international community. That is something the G7 is wrestling with right now.

*Q: To get back to yourself. Do you have any particular views on where you'd like to see things go? What your own agenda is?*

SHAKOW: You mean for the Bank?

Q: Yes, well, or with this committee.

SHAKOW: For the Development Committee? I think we have a very active chairman at the moment, the Deputy Prime Minister of Malaysia, Anwar Ibrahim. I think if his situation at home stays stable he can be a very great and good leader of this Committee, because he has ideas of his own and is a very activist person. We have to recognize that there are great limits to what this committee can do. It is not formally a decision making body, although these are the political leaders of our Boards and so on. If it is going to address problems that go beyond the Bank and the Fund it needs to have the support of the membership.

It can play a role as a theme setter and so on, but it does require a Chairman prepared to take the lead. It requires a Bank and Fund that are prepared to support it. I think both Wolfensohn and Camdessus, the Managing Director of the Fund, have been very strong

supporters of the Committee.

So, yes, I think that if we want to stay on the cutting edge of the issues, we want a place where there can be a full exploration of these issues, even if some of the decisions are taken in other places. I have only about another year of working on this Committee, a year and a half, but I'm pleased we've made as much progress as we have. There will always be frustrations, because it's not a terribly wieldy committee, but it's better than most others.

*Q: Anything else about your experience in the Bank? We haven't taken it job by job.*

SHAKOW: I don't think you'd want to do that anyway. Again, I told you I found, when I worked with AID, that there were a lot of very good people there. There is no doubt the Bank, particularly when I came here, was a repository of an enormous amount of strength and wealth in terms of talent. I've always thought the Presidents of the Bank were not able to get as much out of it as they should, or at least the sum was not always greater than the parts, and I don't know what all the reasons are for it. But there is a gold mine here, and I think it needs to be mobilized and released a little bit more. I think Jim Wolfenson is trying to do that; trying to build support on the outside that makes it easier to do that. There are a lot of problems on the inside that still need to be sorted out, about how people work together and how they can get on with the job and how to cut out some of the bureaucracy. But it's a big place; 10,000 people work here.

But I think the steps that are being taken now to get more people out to the field, to try to simplify procedures, to open up collaboration with others, those are all good things and I hope they work. I have found that it is a very stimulating place to be. I was very lucky to be able to move from AID, where I was in, I thought, a great place for being stimulated intellectually and professionally and having fun. I was able to move to the Bank at a time when I could also get into situations with a lot of very interesting people from all over the world, and from whom I have learned an enormous amount. So I've had a lot of fun here, too, most of the time. It was tough during that period I was in charge of External Affairs. So, when I retire in a year and a half or so, I will leave having felt that this was a great opportunity — the diversity of jobs that I have had, the fun of trying to work in a place that had this capacity and needed to open up a little bit. Maybe I've played a small part in doing that.

*Q: Well, that's a good place to end for the moment. This has been an excellent interview. Thank you very much.*

SHAKOW: You were very kind to have listened to all of this.

## **Annex**

### FOREIGN ECONOMIC ASSISTANCE IN INDONESIA

1950-1961

BY ALEXANDER SHAKOW

(London School of Economics)

Submitted in Partial Fulfillment of  
the Requirements for the Degree of  
Ph.D (Econ.) at the University of London  
August 1962

#### ABSTRACT

This is an historical study which attempts to describe and analyze the effects of foreign assistance on Indonesia's domestic situation and foreign policy.

During Indonesia's struggle for independence after 1945, assistance obtained from private sources in the United States hastened transfer of sovereignty. However, in the first years of full independence hopes for American government assistance proved to be exaggerated for political, economic and procedural reasons. American aid did little to overcome domestic difficulties and instead caused a cabinet crisis in 1952. The party struggle in Indonesia and the desire for a more independent foreign policy turned attention during the next three years to other sources of assistance.

After a transitional Western-oriented cabinet, the Soviet Union's \$100 million 1956 credit offer presented Indonesia's first elected Government with an important alternative source of economic assistance.

There followed a period of domestic chaos and regional rebellion, to which the Great Powers reacted in different ways. Foreign credits became an important political weapon whose significance increased as the pursuit of political power and prestige, to the neglect of economic factors, made the technician's task more difficult.

## **Preface**

This study was begun in early 1950 during the author's first year as a graduate student at the London School of Economics, but the opportunity to carry our research in Indonesia has made completion of the work possible, for in Indonesia alone may the essential material be found. The author was extremely fortunate in receiving a grant from Siswas Lokantara Foundation (Jajasau Siswas Lokantara) of Djakarta which facilitated a stay of sixteen months (September 1960-January 1962) in Indonesia. He is deeply indebted to the Foundation's directors and staff for their continuous assistance and encouragement throughout his stay, as well as for the great independence they allowed to the researcher. The Foundation is in no way, of course, responsible for the material and opinions expressed in this report, which remain those of the author alone.

Without the assistance of numerous Government officials and private citizens the research in Indonesia would have been fruitless; the author was received with great warmth and kindness in all Government departments and other offices in which he sought information. Despite the additional disturbance of a foreign research student, these persons gave generously and unstintingly of their time and were generally eager to assist in any possible manner. The author was privileged to spend many months carrying out research in Government offices examining data concerned with foreign assistance, while hundreds of hours were spent in valuable conversations with officials and persons at all levels of the government hierarchy and the general community. To all these persons the author extends here that which he has attempted to express personally before — his greatest appreciation for their willingness to shoulder this additional burden and warm thanks for their trust and desire to discuss important issues with great candor. It is hoped that these persons will find in this work some repayment of the great debt owed to them. Although without their help this study would have been impossible, the entire contents remain, of course, the sole responsibility of the author.

The list of persons both in and outside Indonesia to whom the author is indebted is long, and to thank them all adequately here would be impossible, but special mention must be made of a few. The staffs of the Indonesian Embassies in London and Washington and the UN delegation in New York, were generous in their assistance and friendship, as was the Amsterdam office of Antara, the Indonesian press agency. Library staffs in various parts of the world, especially Djakarta and London, have been invaluable. ICA/AID personnel in Djakarta and Washington were also of great assistance to the author, as was the staff of the Royal Institute of International Affairs in London. Members of the faculties of the London School of Economics, the School of Oriental and African Studies, the University of Indonesia, among others, were frequent sources of information and support. The author is obliged to several fellow students of Indonesian affairs for their advice and opinions on a wide range of subjects during the period of this research, as well as to his many friends in Indonesia who made the entire experience a vastly rewarding one. The greatest debt of gratitude is due to the author's supervisor, Professor Martin Wight, for consistent encouragement, helpful criticism and lasting friendship throughout the past four years.

As the author was granted access to material not normally available to the public, on certain occasions it has been necessary to omit reference to sources for opinions quoted or documents cited, although wherever possible that has been done. As many of the questions involved are still of current importance, however, a certain amount of discretion has been required in respect for the candor of the informants and the trust of the government departments concerned.

Material in both the English and Indonesian languages from a wide range of sources has been used. For the most part the translations from the Indonesian into English are the author's own. Nearly all the personal interviews and daily conversations with government officials and others were conducted in Indonesian, the author sincerely hopes that his translations have not done too great damage to the original expressions.

The author has tried not to use the jargon peculiar to foreign assistance programs or other even less recognizable nomenclature; when such terms do appear footnotes provide a brief elucidation. "Foreign aid" is used in the broadest sense, to include grant assistance, loans and credits from one nation to another, and other special items such as the sale of surplus agricultural commodities for local currency. Grants are considered as gifts for which no strict repayment is required. Little distinction is drawn here between credits and loans; they are used synonymously to describe aid which involved an obligation to repay the principal. It is hoped that the discussion in each section will be sufficiently clear for a rigid definition of these terms not to be required.

The organization of the study presupposes some awareness of Indonesia and geographical characterizations. Many such introductory chapters are already in print, and it would be superfluous to include another here (See, for example, chapters in Kahin (ed.) Governments and Politics of Southeast Asia (Indonesia chapter by H. Feith), Kahin (ed.) - Major Governments of Asia, Kahin - Nationalism and Revolution in Indonesia, or Paanw, Financing Economic Development: The Indonesian Case. (Introduction by B. Higgins).). As the table of contents shows, this study concentrates upon Indonesia experiences with assistance from the United States, the Soviet Union and Eastern Europe. Some reference is made to assistance from other countries and international as well as private bodies, and will be found in appendices.

It is a difficult in the study of current material that changes continue to take place at a rapid pace following the close of the 1950-61 period under consideration. The attempt has been made, however, to include data for 1962 that is available and relevant. Earlier material was accurate to the best of the author's knowledge at the time he left Indonesia in January 1962. By mid-1962 there seemed to be no changes of a substantive nature to cause revision of the major points in this work.

Although in 1961 a new American assistance agency, the Agency for International Development (AID) replaced the International Cooperation Administration, the text has for convenience continued to refer to the latter. Indonesian Government Departments were recently known as Ministries and are generally referred to as such. Occasionally academic titles are mentioned: Ir. indicates an engineering degree, Mr. a law degree, Drs.

a degree in the humanities (generally doctoral level minus the dissertation), and Dr. a full doctorate, usually in medicine.

C. The Export-Import Bank Loan

III. MSA - Crisis and Aftermath

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B. MSA and the Milopo Cabinet

IV. American Assistance: 1952-55

A. The Post-MSA Perspective on Aid

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C. Export-Import Bank Loan

D. Counterpart Funds

V. The Competition Begins

A. Transition and the Burharuddin Harahap Cabinet

B. The Second Ali Cabinet and the Widening of Choice

C. Western Aid and the 1956-57 Situation

D. The Soviet Loan in Parliament

E. The USA and the Rebels

VI. Credits and Indonesian Policy

A. The Role of Non-American Credits: 1950-55

B. Credits and Indonesian Policy: 1956-61

VII. Credits from Communist Nations: 1956-61

A. Soviet Credit Implementation

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VIII. American Loans: 1956-61

A. The Export-Import Bank

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- C. Development Loan Fund
- D. Surplus Agricultural Commodities

IX. American Grant Assistance

Appendices

- A. The International Monetary Fund and the International Bank
- B. Credits: Western Europe and Japan: 1956-61
- C. Other Technical Assistance
  
- A. Affiliation Schemes
- B. West German Grant Assistance
- C. Soviet Grant Aid
- D. The Colombo Plan
- E. United Nations Assistance
- F. Private Aid
  
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- D. Economic and Technical Cooperation Agreement
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Bibliography

*End of interview*