

Fahd Ali: I would like to divide the interview into two parts: your career at IBA and basically higher education in Pakistan and your career at the State Bank, and even before that your involvement as an economist as part of World Bank with economic policy management in Pakistan.

I will start with your most recent experience at IBA.

FA: How do you look at your past eight years at IBA? Now that you have retired, how are you reflecting back on it?

Ishrat Husain: I think it has been an extremely fulfilling and satisfying experience for me, because whatever strategic goals I had set for myself and for IBA, in the beginning of 2009, we were able to achieve before 2016. So, although, strategy in Pakistan is always very beautifully formulated but there is always a gap between the formulation and the actual execution and achievements. So I take pride that whatever we had set out to do, we were able to achieve on time and fulfill all our commitments to the different stakeholders.

FA: What was your strategy?

There were five pillars of this strategy: the first pillar was, enhancing the quality of existing programs and bringing in new academic programs for which there was an unmet need in Karachi. So we transformed our MBA program, which was our flagship and aligned it with international best practice that everybody has to have two-years work experience after doing their graduation before they can join MBA. We did this on the recommendation of our international advisory committee. This was completely a surprise for both, my faculty and the finance people, because our enrollment went down from 150 to 25 in 2010 when we started.

This was a big shock, because our tuition fee declined substantially, our faculty was without courses, but we persisted. And the market has now recognized there is a qualitative difference in graduates who came straight from BBA program to MBA, and those who are now coming out of our MBA program with two-years of prior work experience. They are more mature, they are not chasing grades; they are very much interested in how to absorb and assimilate their knowledge and apply it to real world problems.

At the same time, we also tried to revamp our BBA program. The BBA program was something of a standard undergraduate program; it was not a terminal degree. Majority of them went in for Masters program either in Pakistan at IBA, LUMS or abroad. Some of them just decided that they will take a break and they will do other things. But very few went into the job market. Here we made BBA a terminal degree, because for that two-year work experience you have to go to the job market before you can do MBA. So the consistent approach was that you make BBA a terminal

degree. We also made eight social sciences courses mandatory for every BBA student. My philosophy was that you have to be a good human being first; a citizen who is quite responsible to his environment, before you become a competent professional, so these changes will help us achieve that.

We also brought in experiential learning project. In the final year, each student will be assigned an assignment in a company. The companies don't have to hire a consultant but they hire our students to work on a problem they are facing, and the students will be evaluated on the basis of their analysis, options, and recommendations.. So that gives them a hands-on experience and when they go to the job market, they are not naïve and don't just have book-ish knowledge, but they have done practical work as well. So the same kids whom I had seen chasing teachers and pleading that "oh please give us two marks so we can jump from B+ to A-, their own thinking by the final year had changed because they were preparing for the job market

I also introduced a 'Responsible Citizen Initiative,' this is an eight-week social internship where you have to work with a community, either at TCF schools, SIUT, or Eidhi Foundation, or a village where there is poverty and there are community organizations. Our students come mostly from well to do families, and they don't realize how privileged and lucky they are . They need to empathize with the less well to do parts of the community. And this is something we introduced for BBA..

I was very nervous when the first batch of BBA was entering the market, this was almost between 250-300, and I was like my god if they don't get jobs the reputation of IBA will go in the dust. It was a scary scenario, but with the grace of God, 91 percent of them got placed within six months of their graduation because they were the material employers were looking for.

We also introduced other changes in the Institute. Pakistani accountants are in high demand in the Middle East or England but the pass percentage for ICAP is very low. So I went to the managing committee of the ICAP, and said that we would teach the courses, which you expect them to fulfill as part of your requirements and you give us exemption. We will give you a very high quality raw material. It took me one year, but they got convinced, and now other schools are also following this. Accounting and finance degree is attractive, both from the point of view of the academic qualification as well as employability because they will get exemptions from eight papers of ICAP, and after three papers, they can become chartered accountants. We negotiated similar arrangements with CIMA, for their management accounting certification, and also ACCA.

Another area where we introduced major changes is our economics major. We have made it math intensive so that our graduates can be accepted by the top economics departments of the US.

The second pillar was bringing in a new crop of faculty members in different disciplines. Now in order to do that, we had to induct only high quality faculty. We had only 19 PhD's in 2009, today we have 60 PhD's already working and 24 are doing their PhD's abroad. So in next few years , 80% of the faculty will be PhD degree holders, mostly from outside Pakistan. And these people are not only interested in teaching, but they are also interested in research, case studies, and writing. We are now encouraging research that is Pakistan centric; we are committed to adding value not only to our teaching but also to our society and our economy. We improved both the quality, as well as numbers of our faculty, which was needed to support the expansion as well as enhance the pedagogical tools. If I had continued with the old recruitment method of hiring fresh MBAs from IBA who had no international exposure, had never done case studies, this pedagogical transformation could not have taken place; so we had to change our recruitment standards and make them more stringent.

The third pillar was physical infrastructure. I was ashamed that there was not a proper office for any faculty member to sit in, they were all sitting in a common lounge—an environment completely inimical to any academic institution. There were no clean toilets where the faculty members could go. How could I attract people from Berkeley and Northwestern and Cambridge if that was the condition? So I undertook a major program of remodeling and expanding the existing physical infrastructure. Not one single laboratory or classroom had been added after 1965. Although the numbers had gone up from 200 students to 2,000 students, but no addition had been made to the physical plant. So I mobilized some 500 crore rupees, and completed 21 new projects, and remodeled nine exiting buildings, hostels, seminar rooms, center for entrepreneurial development, academic blocks, new libraries, laboratories . This expansion has helped us in increasing our enrolment from 2,000 to 3,600 this year. So our financial resources have almost doubled, internally generated revenues providing us 70% of our operational expenditure so our dependence on outside resources has been reduced. And I have raised one billion rupees as endowment fund and the income from that endowment fund also goes to support the budget. This strategy of financial sustainability was dependent on the expansion of our student body without compromising quality, bringing in new teachers of high caliber who can be provided conducive environment in which they can work and technology upgradation.

And the final pillar was community outreach. Because I came from a background that was not academic, I felt that our higher education institutions should reach out to the community. We have established four centers in Aman Tower, which is a 14-story building in the city campus and has residential accommodation, dining facilities, library facilities, break rooms, seminar rooms, and syndicate rooms. The four centers are center for executive education, where we bring in people in their mid-career for courses in strategy and leadership and supply chain, etc.. We have both customized and open courses to meet the needs of the corporate sector,.. So we want to upgrade the skills of the existing employees of our companies. The second center is the center

for business and economic research, where we assist Sindh government on taxation, the State Bank of Pakistan on consumer confidence surveys and business confidence survey. We do studies for World Bank, for example on textile industry in Pakistan, among others. The third center is center for excellence in journalism, which has been set up with the partnership of the Medill school of journalism at Northwestern which is the number one journalism school in the US, under a grant given by the US. We have set up a state of the art TV studio that is exactly comparable to what any news channel newsroom looks like. The fourth one is the center of excellence in Islamic finance. In Pakistan, Islamic finance is expanding quite rapidly, but the talent and the manpower for this is hardly distinguishable from that of conventional banking. We competed with other universities and won a grant from the State Bank of Pakistan, for setting up this center. We are bringing in the best scholars, from all over the world, in order to deepen our training and education.

To me personally the more satisfying part of community outreach pillar is the national talent hunt program, the Sindh talent hunt program, the KPK talent hunt program, and the Baluchistan talent hunt program. Under these programs recruit these students from backward districts and poor families who have done well at their intermediate examinations and bring them to Karachi at our expense and coach and mentor them. Last year we had 1,600 applications under this program, and 25 were able to make it through our entry test. So we have a son of a labourer of the same factory in the class where the owner's daughter is also studying. Both of them are classmates at IBA. That's the kind of revolution that I think that needs to be brought about. To me, higher education is a means of social mobility and you can't have social mobility unless you have equipped poor families with the tools to cross these barriers and boundaries.

FA: At this stage if I can ask you two things: you mentioned critical thinking and problem solving as the pillars of the BBA and MBA program. If you think about it, any higher education degree should essentially be about these things, it shouldn't come across as a surprise for anybody that when setting up a university, one needs to focus on these two aspects of education. Why do you think that this is something you had to especially introduce into the program? How come everyone before you missed out on this?

IH: Because pedagogy for both BBA and MBA were the same – lectures, monologues from teachers, assignment from the textbooks – that is what they were doing. We changed it. We changed the whole pedagogical structure and tools. There are now case studies, experiential learning, problem solving exercises, simulation for MBA. You have to have grounding in the theory but how do you apply that theory in actual facts forms the crux of learning.

FA: But why did you feel the need to change it?

IH: Because we had focus groups discussion with the employers and alumni and they shared their concerns about our programs. These changes resulted from the feedback and suggestion we received.. And that feedback was then distilled into the revamping of our program, which was then endorsed and modified to some extent by the international advisory committee; so we had this whole process. The process, to me, was more important than the outcome. So what we were listening from various stakeholders, that formed the whole program of transformation.

FA: So what I am specifically trying to understand is that when you took over in 2008, was IBA passing through some sort of crises, which necessitated these changes, or were these reforms part of your vision that you brought to the institution; because IBA is one of the oldest business colleges, not just in Pakistan but also in the region?

IH: My vision was that we wanted to be among the top 100 global business schools, and top 10 in the region. So this strategy was to meet this particular goal. In order to do that, we had to realign our programs with the international best practices that are also rooted in the local circumstances. We also had to apply for accreditation from international agencies and we wanted to get new ones. These changes were necessary in order to obtain those.

FA: All these changes that you so extensively talked about are also similar to opening too many battlegrounds. What were your challenges? Did you encounter any difficulties? People usually like to continue with status quo, why would they want to change?

IH: Whenever you bring in some changes, you have to meet resistance from those who are complacent, and want to maintain status quo. I didn't seek this job, I didn't apply for it, they requested me, and they sought me out for this job. And my condition was that I don't need a job, I am coming here for a larger mission. My personal thinking was that here is an institution which was the first business school established outside north America, in 1955, why the heck is it still so unknown outside Pakistan? So to me the challenge was that this institution should be one of the top institutions like IIMs (Indian Institute of Managements). I mean if you go abroad, IIM Ahmedabad, IIM Bangalore, IIM Calcutta are household names like Harvard and Cambridge and Berkeley. So why isn't IBA? So my first condition was that I would not allow interference from any political quarters, because it was a public sector institution. If you interfere, then I am going to walk out. Secondly you have to give me the freedom to approach the private sector, foundations to raise money because you don't have the money. And unless I have the physical infrastructure and technological upgradation, I won't be able to bring in teachers, I won't be able to pay them the market-based salaries because my salary offer would depend on the Institute's endowment and its financial health. So all of these are interlinked. To me, this is a circle, and the circle is interdependent on all the changes. If I don't have classrooms, I can't expand my enrollment. If I don't have good facilities for the

teachers, I cannot bring in high quality faculty. If I don't have high quality faculty, I cannot market new courses.

FA: How was the response from the staff and the faculty?

IH: The old faculty and the old staff were very annoyed because they were all government servants, and they wanted to retain their comfort level; they were always threatening to go on strike, and go to press club, and write newspaper articles and I thought if I got entangled in this agenda, that means I will never be able to reach my goal. So let me be steadfast in my goal and reach my destination, rather than go sideways and get entangled with them. But when they themselves saw that progress has been made, the media is paying tributes, the students are all praise, they couldn't do much. Some of the old faculty members showed resistance and never reconciled with that because it was threatening their comfort level. But with the grace of God, some of them got retired during the period and I was able to bring in 56 new faculty members during these eight years.

FA: Higher education in Pakistan has come to be seen as some sort of a panacea. Rightly or wrongly some people think that is the fix for all our ailments. Within this there also seems to be a renewed focus on social sciences, particularly in the private sector. Do you think there are some strong intellectual basis for these concerns? Or do you think Pakistan is just responding to an international trend, perhaps?

IH: I'd refer to a paper "Public Policy and Social Sciences" I presented at a conference at Government College University in Lahore.. This was maybe 6-7 years ago. On one hand I catalogued all the problems which are being faced by this country. And on the other I said what is the status of Social Sciences research and teaching in Pakistan. People who did not make it to the Civil Service Exams, became the teachers of History and Social Sciences. That was a trend. But since HEC invested in PHD programs, some very bright young men and women have gone to good schools and come back with PHDs. And I would take your example for example, Habib University has some very bright people who have come back. LUMS has now a very good faculty of Social Sciences. I've 20 PHD's at IBA. So the trend has changed. So some of it is because of the HEC's PHD program. And the other is that this is a virgin territory. If you write about Pakistan's historical, political, religious problems in a scientific manner, you will get published in the best journals. So it is aligned with your own personal incentive structure. Here is the critical mass which has been created by the Higher Education Commission and here is an incentive structure which induces you to do research in these fields rather than some kind of esoteric problem of the Western world. You may combine all this. This is a very healthy sign and I am very encouraged by this.

FA: The problem is that because of the politics of the past decade and a half, the world has focus a lot on Pakistan. Everyone wants to understand Pakistan's connection with Islam, whether Islam is really that important or not, and within that context a lot of social problems are discussed. But that focus is not going to stay. It's gradually shifting. What will happen once it does?

IH: If I had anthropological tools and techniques at my command, I could use those techniques for observation of other social sciences problems. Same is the case in political science and history. History books in Pakistan require complete rehashing. I expect these people who are coming back with degrees from very serious universities will be the first ones to challenge the conventional thinking. We should have more Ayesha Jalals in this country. We should have people who are researching, on our political system, on our social and economic problems and on the history of this country.

FA: There is certainly a lot of potential to do very interesting research here in Pakistan. But the countries where research is carried out, it is also supported by a host of institutions other than universities. The society in general attaches some value to it....

IH: Things are changing now, even though slowly. HEC offers competitive research grants now... in social sciences. These are announced every year. You don't have to be part of a public sector university in order to compete for these grants. If You've developed a good proposal, you can compete. And it will be peer reviewed and you will be awarded the grant if your research proposal is accepted. . So state is also modifying its own postures as far as this is concerned.

FA: But as far as their commitment is concerned, how much are they committed to maintain this?

IH: The State is not a monolithic, homogenous mass. It is hugely amorphous. It depends who you are talking about. If you are talking to the chief minister of Punjab, you get a very different picture of the State. If you talk to the Chief Minister of Sindh, you get a very different picture. So I will not generalize that. I think wherever there are opportunities, you strike it. Have an opportunistic position rather than a strategic position at this stage. Maybe when we have reached a certain threshold, we might have a more institutionalized approach.. Look at the number of seminars done by the so-called think tanks. Some of them are just regurgitation of opinions. In the U.S, the think tanks first carry out the research and then they use this for advocacy purposes and dissemination. But over here, I go to a seminar and whatever my opinion is I'm just presenting that and people are just listening to me. This will all disappear when you have serious researchers coming to the seminars and presenting facts and evidence. So it is bad money being displaced by good money. It hasn't reached that stage. But if you continue on this, it will happen. There are many

indicators which show that there has been an improvement. There was a gap after Musharraf left when the government in 2008-2013 completely starved HEC, they diluted the autonomous powers of the HEC. They decentralized the HEC to the provinces. That damage has really done a great disservice to the education of this country. Now they are trying to again put things back, but that damage will take a long time to be corrected. All the overseas scholarships were discontinued. People were studying abroad and they didn't have the money to pay for their tuition fee.

FA: Doesn't this highlight the commitment issue I was trying to highlight earlier?

IH: The State also changes its colors. This government for example is putting a lot of money into HEC. They have increased the allocation for the higher education. So the Musharraf thing is back. But for five years there was not much going on. So the state commitment is also oscillating

FA : **If I can be the devil's advocate for a bit. A lot of changes that you talked about, they were necessary and needed. Some people might say that these are essential in determining the quality of an institution but this is not what you'd identify a top quality institution with. A top quality institution is identified by the intellectual environment that it can create for its faculty members and students. And one aspect of that intellectual environment is the freedom to ask questions. A lot of people feel that environment is shrinking. How would you respond to that?**

IH: You are right. Intellectual curiosity and academic freedom are the cornerstones of any university. Our teachers are quite free to express their views openly. I actually encourage my students to ask all the difficult questions and I say right when they come on the first day that the best way of learning is through inquisitiveness. And no question is a stupid question. Every question that comes through your mind, you should ask them.

FA: **Actually, to be more specific, what you were saying about history and Pakistan's history and how it is written, you were spot on. There are lots of things that need to be fixed over there. But that new type of historiography in Pakistan is not possible unless until higher educational institutions actually protect the type of questions that is required for a new type of historiography.. so basically questioning institutions of power.....**

Ishrat Husain: No, I think this is happening . For example there was certain ethnic party in this city nobody could even raise a finger on because they were all scared that some retaliation would take place. For the last four years, the media is full of attacks on them. Similarly, there are religious extremists whom you and I thought will never be touched but the elimination of leadership of a sectarian organization that was

considered unassailable for example is a major attitudinal change . The protection of Women Law in Punjab is something we can be proud of. Look at the reception Sharmeen Obaid Chinoy got on this documentary by the Prime Minister himself. To me these are the pointers. We expect social change to take place over night but you have to see the pointers. Whether the pointers are in the right direction or not.

FA: And what about (questioning) the military?

IH: Military has completely changed. It is no longer the same. The military is very much now convinced that our internal problems are our worst enemy. We have to take care of them. So all this has been a great nuisance for us

FA: Institutions in Pakistan are synonymous with the individuals. When the individual leaves whatever good work they have done also leaves with them. How do you see that? Do you have that fear?

IH: I believe in institutional building. My theory is the deans and directors before me started the journey from point A and brought it over point B.. I got the opportunity, to take this institution to point C, and I expect my successors to take it from that point to point D. Now the space we traverse may vary and I may have covered more space in this journey during these 8 years. But if I have put in place systems and procedures, transparent policies, human resources of quality, checks and balances, technology, 80-20 formula will remain in force. 20% is the influence of the personality style of the head of the institution but 80% is system driven because of the systems and the procedures, the human resources and the technology which have been in place and the culture which has been created. People used to send obnoxious and insulting emails to me but I never took any revenge or retribution. Academic freedom allows people to say anything however unpalatable it may be to you as a person.. Now if the new dean comes in and represses this academic freedom there will be uproar because people are now very used to a very different way of living. So my aim not to renew my third term is embedded into this principle that human beings are not indispensable and the institutions have to be built by a succession of people. It's quite possible that the next person may have even better ideas and maybe very good at executing those ideas. Why should I profess to have the monopoly of the wisdom?

FA: After your two terms at IBA, do you have any regrets? Targets that you wanted to achieve but couldn't?

IH: One regret that I have is that the faculty has not worked together in teams. They are all working in silos. In today's world my goal was to develop teams for collaborative research, multi disciplinary in texture. That was my goal, an economist

with a sociologist and a computer science expert with a marketing person is what we need because our problems are not, for example, compartmentalised problems. That was my wish that I would be able to create these multidisciplinary collaborative research teams working on the problems of Pakistan. That was the motivation with which I went in to academia but I was taken up by other preoccupations such as building up the faculty which is why perhaps I could not do anything on that front.

FA: Let's now move to your tenure at the State Bank on Pakistan. Generally the monetary policy that the Bank followed during the Musharraf government was quite accommodating. People say that one of the outcomes of this kind of policy is that it encouraged a particular type of consumerism rather than focusing on more productive aspects of the economy. How do you respond to that?

Hussain Very good question, one that I am glad you asked. You have to take the initial conditions of the economy into consideration when devising your policies. After May 1998 Pakistan was under sanctions; we had nuclear sanctions, freezing of accounts had shattered the confidence of Pakistanis both residents and non residents, the growth rates had tumbled, foreign exchange reserves were negative, the military took over and the military sanctions were imposed on Pakistan. You can not have a situation where the living standards are either stagnant or declining; this can lead to a social upheaval. Our fiscal policy lever was jammed because the debt GDP ratio at that time was 100 per cent. How do you kick start an economy, particularly when inflation was subdued because there was no purchasing power. The aggregate demand was deficient. How do you kick start the economy under these conditions? You have only the lever of monetary policy free to play around and you bring down the interest rates so that this can provide the stimulus to the economy which is underutilised as far as the production capacity is concerned. Now, if you are producing 30,000 cars when the installed capacity is 200,00 cars or cement production is 9 million tonnes against the capacity of 18 million then the first thing that you do is to take steps that can enhance the purchasing power which will lead to rising demand resulting in higher capacity utilisation. It is only after the existing capacity is fully utilized expansion will take place through the investment. Our consumers do not have lump sum cash to purchase a car or motorcycle or apartment. Why not give them the loans against their incomes which they can use to purchase this on instalment basis rather than paying the same amount in rent or transport fares. This will push the aggregate demand and the existing capacity will be utilised. The unit cost will decline, because of the economies of scale as the fixed costs are spread over larger volume of goods being produced .. So to kick start the economy we did this as the first phase.

In the second phase, when demand for steel went up, for automobile and , cement went up and there was new investment to expand the production capacity. By 2006-2007 investment GDP ratio was highest which was 23 per cent. So if we had not started this kick start of the economy through an increase in aggregate demand using the monetary policy lever we won't have been able to attain this virtuous cycle of increased capacity utilization followed by new investment. . When investment rose GDP growth rate averaged 6 to 7 per cent per annum. So this was the monetary policy strategy that we used. Even at its peak the consumer loans, including the salary loans which were totally covered by the company guaranteeing that we will pay the instalments through his salary, never reached more than 10 per cent of the total

advances in the economy. In India it is 50 per cent of the advances. In Malaysia it is 100 per cent of the advances. So this is the strategy that I very proudly say kick started the economy. So if you can't use the fiscal policy lever then use the monetary policy lever.

FA: I can understand that the fiscal policy lever was not available immediately after 1998 but that lever was available then in the subsequently later years. Yes the economy did well and the GDP went up, private consumption went up, private investment went up but what did not go up at the same time was investments in, say, public infrastructure or other public investments of this kind.

IH: No public investment did go up but not to the same extent as the private investment

FA: So that can act as a bottle neck in promoting growth

IH: The only point that I will make is that the motorway between Peshawar and Lahore was made during that period, the ports development, the airport development took place during that period; the only area where I think the government underestimated was the energy sector. They did not realise that with a GDP growth of 6 per cent and elasticity of demand for electricity and gas greater than 1 we should have at least kept up the energy production to a level commensurate with the future demand, and that was the reason why we faced this problem in 2008-2009. So the energy part I do concede, but the public investment and GDP ratio was the highest during this period, 16 per cent was private and 7 per cent was public which made the aggregate of 23 per cent. Even today you don't have seven per cent public investment rate. I used to sit in those meetings and the Sui Southern would tell us that we will have shortage of gas and nothing concrete was done to resolve that issue. In hindsight we are all very wise.

FA: I am glad that you have actually mentioned that. Is it really a matter of oversight and they just not realising? There was the Energy Action Plan — beautiful drafts, long term demands and how these shortages will be met. Leg work was done and perhaps in its early years the government did not have the expertise or have access to those experts but later on they did yet nothing was done.

IH: Let me divide that period in to two parts March 2007, pre and post. When the problem with the judiciary arose the attention of the government was deflected from the economy. Before that the economy was the centre of attention. Then we had the election scheduled in 2007 and so the political allies of the government said go easy and slow down the reforms, if we pass through the prices we will lose the elections. So they did not adjust the prices that went up at the time. In 2007 commodity prices went up so that was the mistake that I pointed out. I was not part of the government, I was outside it but I still did point it out. So a combination of diversion of attention from economic matters towards the judicial activism that was taking place, The Lal masjid incident, the emergency of 2007, all these events displaced the very systematic attention that was being given to economic policies.

FA: As someone who observed the government from close quarters what did you think actually did go wrong?

IH: The lack of timely decision making on key issues in post March 2007 period.. See if you don't take timely decisions the cumulative of those wrong or postponed decisions is huge. The same thing I have said about LNG. That was something which was being debated in Pakistan since 2010. They were very good deals but the Supreme Court of Pakistan did not allow even one of these deals to be completed. And today in 2016 we are suffering because of that. For Pakistan the cost of indecisions and postponed decisions have been huge. There is a whole list of such decisions. The accumulative effect of that is quite high.

FA: How do you compare economic policy between different regimes; military and civil?

IH: I would say 2000 to 2002 when we had a cabinet of technocrats, that was the best period of economic management in Pakistan's history when all the tough reforms were introduced. Whether it was taxation when the maximum custom duty was brought down to 25 per cent maximum and the slabs were reduced to three or the Universal Self Assessment Scheme, where we said there will no interaction between the tax payer and the tax collector, the administrative reforms in FBR these were introduced in that period. They were tough changes. That was the best period. 2003 to 2006 was reasonably good because the momentum of growth took its own course. So when you have the rising tides, all ships go up, . International confidence was high and FDI flows were at their peak.. 2007 was the turning point----elections, judicial issues and Lal Masjid. In 2008 there was tension between Musharraf, army and the new government. And the new government from 2008 to 2013 did not pay much attention to economic management. They changed five finance ministers and five governors of the Central bank. I've been saying this that when the ship is in turbulent waters you need strong hands on the wheel to bring the ship to the shore safely. We had a turbulent economy but there was no one minding the store. That I think created a lot of difficulties and a lot of problems for the economy. We did not complete our IMF program because it was too tough for them, they did not fulfill the requirements which they were supposed to do. At least the current government has some very clearly defined steward of the economy. You may agree with him or disagree with him. But at least we all know some body is minding the store. There are firm hands on the wheel who are trying to take the ship to the shore. These are the major differences between the four periods which I pointed out to you.

FA: Let's talk about the taxation policy in the first period that you talk about. Yes a lot of changes were introduced but what did it amount to eventually?

Hussain The fiscal deficit was reduced and the number of tax payers went up at that time. If you look at the number of filers and you graph it you'll find the decline after 2008 when the FBR reforms were reversed and the incentive structure was dismantled.

FA: I have a different take on this. I don't think so. If you remember in early 2000 when the Musharraf regime launched the drive to document the economy they failed miserably. What is remarkable is that here is a regime that is extremely popular yet they failed completely. They sent in these tax officials in military trucks with army

jawaans, just to ensure that the 'corrupt' [tax] officials do not harass shop keepers and retailers yet no one was willing to buy it.

IH: The traders just pulled down their shops against them and that is still the case. You see traders contribute only 14 per cent of your GDP but have street power. The military government did not want to alienate such a powerful constituency and thus lose its popularity.

FA: Recent figures show it has gone up to 22 per cent

IH: No not at all. If you take the services sector it is 55 per cent of GDP. 14 per cent is wholesale and trade. 14 per cent is transport. Then there is construction, followed by financial services, community services and personal services. So if we combine all these components we end up with 55 per cent .. And even from amongst the traders a majority of small traders are not all are tax eligible. More broadly speaking, it is a tax administration problem, the more difficult the tax code is and the more rules we have e, the more difficult it will be to collect taxes. You simplify the tax regime, and reduce the rates, minimize the interaction between tax payer and tax collector I assure you that tax collection will go up

FA: Why can't we catch tax evaders? In the Musharraf regime for example, they had the might of the military behind them, there are no politicians to muddy the water as such. Yet the regime was unable to punish the big evaders.

IH: Up till Abdullah Yousuf's time the tax administrative project was doing well. The moment they removed him the whole process became topsy turvy. Now let me give you a very specific example the FBR had a merit based selection process in which they would interview people from the customs and the income tax for key postings. Those selected for these posts would be given double the salary, as a result of this very good people were selected. for the LTUs and RTOs which started generating additional revenues . The new government came in 2008 and those FBR officials who were deprived of the two salaries went to the politicians and said that they were being treated unfairly, we both are doing the same work but they are receiving double salary and we're not. So the government doubled the salaries of all officials irrespective of their merit or performance and the old culture was restored. that process and they doubled the salary of everyone, so donkey horse everyone was making the same amount. That is how this whole sabotage took place. If the merit based performance related evaluation process and compensation system was allowed to continue , I can tell you things would have improved but that is not what is happening. So the fiscal deficit once again widened because the decline in revenues .

We once gain saw the reemergence of 8 to 10 slabs in customs duty. The regulatory duties have gone up. You do not know which good is going to attract what duty.. Lack of transparency and greater complexity in interpretation of rules give enormous discretionary powers to tax officials. So the point that I am making is that you simplify the tax code, remove the discretionary powers of the tax collectors, make it transparent, make it computerised and automated; I can bet you that tax collection will go up. PRAL (Pakistan Revenue Automation (Pvt.) Ltd. – established in 1994) is their own company but the officials did not allow automation to take place. I brought in their man from FBR to the State Bank, executed within 5 years the largest

IT project in the history of Pakistan with his help. When he went back to the FBR they did not utilize his services. He even then went to Bangladesh and helped automate their system .

FA: The substantive content of these reforms is not new, World Bank has been pushing these kind of reforms for a very long time so that was part of the reforms that Dr Hafeez Pasha took in the early 1990s was also geared towards these.

IH: Yes he did introduce the withholding and presumptive taxes.

FA: His idea was that you introduce these presumptive measures like withholding tax and it would allow you to document the economy and at the same time you simplify the tax code because there has been a long standing demand from a lot of quarters. Despite several years and several such efforts we haven't reached that point yet.

IH: Give them credit. The statutory regulatory orders (SROs) that provided exemptions worth Rs 500 to 600 billion would have been removed by 2017 after the last instalment is covered in the next budget. So in three years time experts such as Hafeez Pasha and everyone else have been saying that the SROs had distorted the entire taxation structure would be put to rest. We should have a level playing field. That will be a major change in the tax structure and as a tax person you would realise that this is a very good incentive for production purposes. Secondly, they have set up a tax reform commission and they have formed an implementation committee and I have read that report and it is in the right direction. Now the question is will these be implemented or not. If they are implemented then it will go in the direction that I am telling you: automation, simplification, changes in the categorisation, minimum interaction; an incentive structure of rewards and penalties, if these principles are enforced and are not sabotaged by the FBR then we have a hope that things will improve, but the jury is still out.

FA: But do you think there is enough push within the State structure?

IH: Well yes the Finance Minister is pushing this. Rs 500 billion in additional collection—Do you think that will happen because of the FBR officials' own volition? They were the beneficiaries of the SRO regime along with the businessmen and the transfer of power to impose the SRO from the FBR to the parliament is resented by many of them .I must clarify that there are many honest and highly principled officers in FBR rank and file but they do not carry the weight.

FA: There's another reform effort you've been involved in and that is reforming the bureaucracy....

IH: **laughs**Ah, yes.

FA:That, I guess, is another demon in Pakistani state structure that is very resilient. It has resisted every effort to reform, to change. How has your experience been with that?

IH: I think I have been disappointed, but I have not given up. And the reason is very simple: In the proposed structure which I have implemented in both the State Bank

and IBA Selection is based on open merit, Performance evaluation is based not on annual confidential report, but on the key performance indicators about the objectives which are agreed between the supervisor and the employee. And then promotions and compensation increments follow a normal distribution curve where only 20 percent can get top ratings of outstanding and excellent, 50 percent will get average and 20 per cent will get below average. Today there is no such performance evaluation system in the Government. So everybody gets the same amount. And everybody is promoted on given time. And in the proposed structure you do not get an automatic promotion. The reward and compensation are linked to performance, and the outcome of training to equip you with the knowledge and the competencies to do your next level job. The trainings today are not taken seriously. People are always arguing that army has occupied a lot of space in Pakistan's governance. And I'll give you my own explanation for that. In 1964, when I joined the Civil Services of Pakistan, the Civil Service on efficiency index and integrity index would have been somewhere between 90-95 and armed forces at the same time would be closer to 30-40. Because they used to get intermediate, they were not among the brightest and the best who invariably competed for civil services.. But 10 years later, these brightest and talented were turned into mediocres and the mediocres who joined the armed forces were turned into a first rate human resource. And when you have a curve of the Civil Service going asymptotically downwards and you have a curve of armed forces going upwards who do you think will occupy that space. That space will go to the institution that is more efficient. And why do you think it is more efficient? The Armed Forces have maintained, highest standard of selection, rigorous training, performance based promotion and thus weeding out all those who are not up to the mark. Performance evaluation is extremely stringent based on pre-defined parameters, promotion is done collectively, not by one individual where every candidate is discussed based on the record.. So out of 350 cadets who joined PMA, only 1 or 2 make it to the top three Star general, few make it to 2 star generals. 10 make it to the brigadiers, and majority retired as majors. I had 20 people in my batch from West Pakistan (we had West Pakistan and East Pakistan). Farooq Laghari became the President. Shahid Hamid became governor of Punjab. I went away to the World Bank and two people were chucked out by Yahya Khan during his term. So 15 of us were left in service. Each one of them occupied the highest position in the civil service the Federal Secretary in Grade 22. Now you tell me, which one of these two is a better system – the one where I knew that after each five year interval I would be promoted to get grade 18, 19, 20 and so on or the one where we have to remain on our toes always to do our best to cross the next hurdle and the barrier thereafter. In my case I didn't have to work so hard, I didn't have to show any performance, I didn't have to do anything! Just time will take me to the highest position! What our Commission proposed was that we follow the set of Human Resource policies and practices that will equip me with getting the best knowledge about my job, performing to the best of my ability, being honest and serving the people? We proposed a process where everybody gets promoted up to grade 19. Once you reach grade 19 whether you are cadre officer, an economist, agriculturist, medical doctor, an engineer, an accountant, you have to compete for higher level positions through a merit based selection process conducted by the Public Service Commissions.. In an economy that is becoming complex and specialized, we are giving a short shrift to specialists and have created a sense of entitlement for generalist to move to the top automatically. The scientists and engineers, agriculture researchers, economists, lawyers, accountants and doctors at present languish all their lives in lower grades frustrated and demotivated subtracting

rather than adding value to the society and the economy. This kind of a system is not a viable system for any country. So we should have a sane selection process which is merit based, we change our annual confidential report, introduce performance objectives with key performance indicators. We design training to prepare the officers for the next job. Training institutions should be manned by the best people who are high flyers in their fields. Compensation is related to their performance and at Grade 19 all officers have to compete with each other to enter the National Executive Service which would be open for appointments as joint secretary, additional secretary and secretary. The selection for the NES would take place through a competitive exam where you are supposed to solve a real world problem facing Pakistan in form of a summary followed by a panel interview. Those inducted into NES should be paid market linked salaries. The report has not seen the light of the day because those who are presently enjoying unrestrained entitlement to the top jobs are closer to the powers that be and would not allow these recommendations to be implemented. And the politicians have been telling me “Dr sahab we have to follow your report,” but I know why this report is still sitting in the cold shelf. It is because it would hurt the interests of those powerful civil servants. To preserve their interests I even suggested that these reforms would not apply to those already in the service but there would be a transition period.

FA: Let’s come to contemporary economic issues. What do you think are the most current pressing economic issues or challenges that Pakistan is facing right now?

IH: I think we have had enough of stabilisation. And the sooner we get on the growth trajectory of 6 to 7 per cent the better. There is a big gap between the delivery capacity of the government and the expectation level of the general public. The general public, because of the powerful communication platforms like social media and electronic media have heightened expectations. If 2000 was my benchmark, at the time social media was not so popular. And even educated urbanized middle class has become quite large now which was not the case in 2000. And the local governments have been disempowered from delivering education, health, water, supplies, sanitation, solid waste disposal, under the new laws. These powers and associated resources are concentrated in the hands of the provincial governments. Unless these powers and resources are devolved I don’t see anything improving.. So whatever they are getting from the federal government about 60 per cent of the divisible tax pool, it is not reaching out to the ordinary citizens living in the districts. I firmly believe that you empower the communities and the local governments the citizens would be prepared to pay taxes and you’ll see the tangible results. And the efficiency in the resource allocation is great because they know what their problems are. I, as secretary of planning, used to allocate money for 500 primary schools. I didn’t know whether the school was needed there or not, or whether they would have teachers there or not. Whether there will be students there or not. But here the local governments from 2001- 2007 decided kay yahan road ki zaroorat hai, school ki nahin. Because they know their situation much better rather than those sitting at the provincial headquarters and making decisions for far flung areas. Just like the 18th amendment, and seventh NFC have devolved powers from the federal government to the provincial government I’m pleading for the same stream of devolution from the provincial governments to the local governments.

FA: Isn't it interesting that the provincial governments are unwilling to give local governments any autonomy yet they themselves have asked for similar kind of powers from the centre, which they eventually received in the 7th NFC Award and the 18th amendment? Why are the provincial government so reluctant to give powers to the local governments?

IH: You know the answer. When the local government system was introduced, the Nazims became very powerful. A person like Shah Mahmood Qureshi who had been a provincial minister, who had been an MNA, chose to become the Nazim. That is exactly the model that we should provide: if you really want to serve your own districts, you become the nazim. Now you find that your powers as MPA or MNA have been diluted you blame the Nazim that “ hum toh constituency mein jaatay hain, humein toh koi salaam nahin karta hai, saara power toh nazim kay paas hai”. If you are a legislator, you create the laws. You cannot run the local governments. Agar shauq hai local government run karnay ka toh you leave the office of MPA, but they want to become as powerful as Nazim but remain in the legislature also. This is the root cause of the nature of weak legislation enacted by the provincial assemblies in the recent years.. So to answer your question , it is the conflict of interest between the Nazims and the MPAs and MNAs. And who has the upper hand, the legislators-- whether they are from PTI, PPP or PML-N. Strong empowered local governments hurt them, therefore they have made them totally impotent.

FA: One of the most important economic issues in these days is China-Pakistan Economic Corridor. How do you see China's greater role in Pakistan?

IH: I don't think it is a question of greater role of China in Pakistan. It is a win win situation for both, them and us. The Western provinces are the most backward provinces in China as compared to the Middle Kingdom as well as the coastal provinces and one of the reasons is the long distance with the sea ports. If they evacuate the goods from Kashgar for example to Shanghai—it is a huge distance and a huge cost, but if they bring it through Gwadar, it is one third of that distance and the Arabian Sea and the Straits of Malacca become accessible at lower transport costs. So China is very much interested in solving this problem of the backwardness in the Western Province. If we are smart, we can use this corridor to open up the backward districts of Pakistan which are located on the proposed Western route from Gwadar to Khuzdar to Quetta to Zhob to Dera Ismail Khan. These are all backward districts and roads and electricity as you know as a development economist are game changer. Some of these districts have minerals, which cannot be processed because they are not accessible; some other horticulture which cannot be marketed because they have no roads. Others have fisheries which get rotten. So the whole economy of those districts will bloom if we open them up. So to me this is very much a win-win situation for both the countries. However, if we get involved in political point scoring then this is going to meet the same fate as other mega projects such as Kalabagh Dam. So we have to develop understandings among all the provinces and all the political parties that this is a fifteen year program which would benefit a vast majority. So today, PML-N is in power, tomorrow PTI may be in power, third day some other party, but all parties have to work together. All the provincial governments irrespective of their political affiliation have to work together. They have to coordinate and there is a huge coordination challenge in its implementation. We have federal ministries fighting with each other, we have federal government at

odd with with the provinces, the provinces fighting amongst themselves. This is not the model that will take us forward, and might even take us back even further. We have to work together --- the private sector, political parties, provincial governments, local governments, academia, all together then we will be able to take this further otherwise we will be debating about it ad nauseum.

FA: But when you say this is not China's greater role within Pakistan, how do you then see fact that the military is actually establishing a separate unit, separate division to provide security along CPEC. The Chinese government has pushed the Sharif government to make constitutional changes and make Gilgit-Baltistan a constitutional part of Pakistan.

IH: That has been a demand for a very long time.

FA: But do you think this will have an impact on Pakistan's Kashmir stance? How will the military take it?

IH: I don't think so. You know, when we were thinking of having these economic zones and the idea was that we give one zone to the Chinese, one to the Japanese and one to the Koreans so they can set up their industries and there will be no interference. We are providing security for them from our own resources because this will be an enclave.

FA: Where were these zones?

IH: The areas surrounding the motorways. So we offered them this option. This idea of special economic zones is nothing new. The Chinese initiative has actually sparked attention by others. So they are saying that "if you give this opportunity to the Chinese, then consider us as well." So it is good for the country, it is a demonstration affect. But my point is very different. My point is: Make it work first. Just don't talk about it. Make it work, demonstrate the efficacy of this and you will find that others will follow. My proposition is that we are blessed with two giant economies of the world that are growing rapidly. A country like ours should take advantage of both these growing economies. We should not play one against another. We should have good economic relations with India, China, Iran and Central Asia. That is what we should be doing. That is the smart thing to do.

FA: When it comes to the implementation of CPEC- one of the biggest roadblocks in some ways is China itself. That they are not interested in building the Western corridor.

IH: Oh no, they are. Remember the All Parties Committee (APC) has taken that decision. That is no longer a controversy. And the Chinese have agreed to it. PSDP has made some allocations this year for the Western corridor and these would continue in the coming years. We have this existing artery from Khanjerab to Havelian, so Karakoram highway was to strengthen that. And, we build the missing links and strengthen the existing ones and link them to the motorway. We have this motorway in the Eastern route between Multan-Sukkur, Sukkur-Karachi and that would happen at the same time. But remember that out of USD 46 billion, 32 are for energy. Only 14 billion is for corridors! My god, they are providing us USD32 billion in form of foreign direct investment, concessional long term loans, grants, equity

participation to solve all our energy problems. They are helping us on Thar Coal, both the mining as well as the power station of USD 2 billion in the first phase. They are bringing in other blocks of Thar also, they are bringing in Sahiwal coal project, Bin Qasim, Wind projects. That is where we should work diligently to get these projects completed so our energy problem gets solved! And we are discussing whether we should have a corridor or not!

