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Folder Title: Travel briefs, Pakistan 02 (01/01/1972-02/03/1972)

Folder ID: 1772617

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4540S

Series: Travel briefings

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: May 16, 2013

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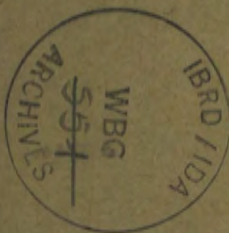
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IFC PROGRAMISLAMIC REPUBLIC OF PAKISTANIFC Brief - January 1972

(Rs. 4.76 = US \$1.00)

I. Membership

The Islamic Republic of Pakistan became a member of IFC on July 20, 1956. Its subscription to IFC capital stock is \$1,108,000 (1.03% of the total) and its number of votes is 1,358 (1.04% of the total).

II. Existing Investments

IFC commitments in Pakistan total \$28 million in nine projects. Two have been repaid and one, representing the only commitment in East Pakistan was cancelled by the sponsor. The outstanding balance for the six active investments is \$15.6 million including a contingent commitment of \$1 million which is unlikely to be utilized. These commitments are summarized in Annex I.

On January 2, President Bhutto ordered the nationalization of major Pakistani industries and moved to break up "undue concentration of economic power". According to a Bank official the intent is not expropriation but to replace family clan management with competent professionals appointed by the Government. It has been stated that companies with large foreign ownership, assuring strong management, would not be affected. It is not yet clear how these policies will be implemented and neither the short nor the medium term implications can yet be assessed. An IFC Mission is scheduled to visit Pakistan to review the status and prospects of our investments in late January.

Existing investments are:

Ismail Cement Industries (cement)

IFC made investments in the Company in 1962 and 1965 totalling \$5.7 million. Current outstanding is \$3.3 million, \$2.9 million in debt and \$417,000 (at cost) in equity, representing 6% ownership. Mr. Naseer Shaikh and his group own 36% of the shares, and control the Company under a Managing Agency arrangement; there are no foreign shareholders other than IFC.

The Company faces serious financial and technical problems, with a deteriorated plant capable of operating at only 45% of capacity. This situation is a result of adverse market and price conditions, combined with management policies that emphasized dividends at the expense of adequate spares and replacement parts. An IFC Mission visited the Company in September 1971 and it was agreed that Rs. 10 million should be raised immediately to import necessary spares and replacement parts to bring the plant up to 66% of capacity. The Company has requested IFC to assist in this financing. We have replied that such expenditures should normally be financed from a company's own resources and are not appropriate for IFC investment. The Company was informed that completion of satisfactory arrangements for raising the required Rs. 10 million is a condition for IFC consideration of debt rescheduling.

The principal repayment of \$227,000 due October 1, 1971 remains unpaid, but interest was paid.

Cement is one of the ten industries selected for nationalization and Mr. Naseer Shaikh is one of the twenty-two families. We are informed that the company management has been taken over by government appointees, but no further information is available.

Pakistan Industrial Credit and Investment Corporation (DFC)

PICIC was incorporated in 1957; in 1963 IFC invested \$486,000 in equity. Current outstanding is \$449,000, representing 3% of the equity. IFC works very well and closely with PICIC which is one of the more mature and well-run DFC's, with competent management and staff.

As of September 30, 1971 PICIC had outstanding investments in East Pakistan amounting to Rs. 404 million, representing 32% of its total portfolio. The DFC Department is reporting on PICIC in more detail.

Crescent Jute Products Ltd. (jute)

In 1964 IFC made a loan of \$2 million to the Company, partially convertible into equity. Current outstanding is \$1.2 million. The Amin-Bashir family group originally owned 30% of the shares; subsequently this was increased to at least 52% held through another Amin-Bashir company, Crescent Textiles. IFC has not exercised its conversion rights; there are no foreign shareholders.

The Company has consistently operated at a loss, mainly due to poor management, and by September 1970 had a negative net worth of Rs. 1 million. IFC negotiated a guarantee of the loan by Crescent Textile,

one of the strongest companies in the group, as a condition for a re-scheduling of the debt approved by the IFC Board in December 1970.

A major problem for the Company will be to re-establish sources of supply for jute on satisfactory terms now that supply from East Pakistan is interrupted.

The Amin-Bashir group is one of the twenty-two families. We have no information on the current status of Crescent Textiles.

Packages Ltd. (paper and paperboard packaging products)

In 1964 IFC financed an expansion of the Company with an investment of \$3.2 million. Current outstanding is \$1.8 million, \$1.2 in debt and \$605,000 (at cost) in equity representing 9% ownership. The Wazir Ali family group owns 35% of the shares and Swedish partners own 20%. Relationship between the partners is very good.

The Company is considered one of the best managed in Pakistan and is now providing technical assistance to other companies in Africa and Indonesia. The Company had approached IFC for financing a further expansion, which appears well-conceived, but requested us in early December to hold the project in abeyance.

The Wazir Ali group is one of the twenty-two families. We have no information on the present status vis-a-vis the Government.

Pakistan Paper Corp. Ltd. (paper)

In 1967 IFC invested \$5.2 million in the Company. Current outstanding is \$4.9 million, \$2.9 million in debt and \$2.0 million (at cost) representing 20% of the equity. The Hoti family group owns 23% of the shares and a German Consortium of equipment suppliers owns 20%.

The project has suffered from a series of financial and technical problems, compounded by strong-willed but inefficient Pakistani top management. Relations between the Pakistanis and the technical management and construction teams supplied by the German Consortium have been strained. Project completion and the Guarantee Test Run were scheduled for August 1970 but mechanical completion was delayed until February 1971. The plant produced paper from April through July, but at a very low level of capacity, and quality was barely acceptable. After a shut-down for repairs in August the plant has been producing paper of a low but commercially acceptable quality, but at only 30% of capacity.

The Guarantee Test Run scheduled for November 25 was aborted because of power failures and a drive-motor breakdown. The independent consultant supervising the Test Run has returned to the U.S. and confirms the IFC engineering opinion that the plant is basically sound

but will require fairly extensive reworking or replacement in certain sections. The Guarantee Test Run was to have set the stage for a meeting of all parties, including IFC and the other financial institutions, to sort out the claims, counter-claims and contractual responsibilities between the Company and the German Consortium and to provide for more effective management. Most of the German management and construction personnel have left Pakistan. The next step is to reschedule the Guarantee Test Run as soon as this is feasible and arrange a meeting of the parties preferably after, but if necessary before, the Guarantee Test Run.

Owing to procedural delays, the debenture issue of Rs. 7.5 million has not yet been completed; the closing is expected shortly. Interest and principal payments due IFC on October 1, 1971 of \$449,000 remain unpaid. IFC and the other financial institutions have agreed to refrain from taking action on arrears due through December 31, 1971 pending discussions of company prospects and possible debt rescheduling.

The Hotis are one of the twenty-two families. The Company sends IFC a weekly production and sales cable and the last received, dated January 8, indicated no abnormal events. The position of the Company vis-a-vis the Government remains unclear.

Dawood Hercules Chemicals Ltd. (fertilizer)

In 1968 the Bank and IFC jointly financed the Company; the Bank loaned \$32 million and IFC invested \$2.9 million representing 10% of the equity. IFC also entered into a contingent loan commitment of \$1 million to cover possible foreign exchange over-runs; this is not expected to be utilized. The Dawood family group owns 40% of the shares and Hercules Inc. 40%.

The plant was completed substantially on schedule, and reached 100% of design capacity on November 13, 1971. It is anticipated that by end January the Company will have completed its contractual start-up period and will be in full commercial production, despite bombing damage which has now been repaired.

The Dawoods are one of the twenty-two families. A Bank staff, however, has stated that the Company is not expected to be affected in view of the substantial foreign investment. We have been informed that the Company has been instructed by the Government to cancel the limited Managing Agency Agreement with the Dawood group.

III. Preliminary Projects

There are no new projects under active consideration. IFC has, however, been approached on two projects during the past six months, future progress on which is uncertain.

Packages Ltd.

Expansion into production of semi-chemical pulp, a new paper board machine and manufacture of multi-wall paper bags. Total cost is estimated at \$20 million of which \$7 - 8 million would be in foreign exchange. The Company is good and the project appears well conceived. It has been temporarily shelved at the request of the sponsor.

BECO Industries Ltd.

Backward integration into steel production with arc furnace and continuous casting based on scrap, mainly imported. The sponsor is not one of the twenty-two families, but both this project and the existing engineering parent are in sectors that the Government proposes to nationalize. Future prospects are uncertain.

T. Baddar (IFC)

January 14, 1972

PAKISTAN

Summary of Investments, as of December 31, 1971

| | <u>Type of Business</u> | <u>FY</u> | <u>Original Commitments</u> | <u>Loan</u> | <u>Equity</u> | <u>Total</u> | <u>Undisbursed Balance</u> |
|--|-------------------------|---------------|---------------------------------|------------------|------------------|-------------------|--------------------------------|
| Steel Corporation of Pakistan, Ltd. | Rolled Steel Products | 1958 | 630,000 | REPAID | -- | -- | -- |
| Adamjee Industries Ltd. | Textiles | 1959 | 750,000 | REPAID | -- | -- | -- |
| Ismail Cement Indus- tries Ltd. | Cement | 1962, 1965 | 5,668,406 | 2,895,216 | 417,327 | 3,312,543 | -- |
| Pakistan Industrial Credit & Invest- ment Corp. Ltd. | Development Finance | 1963, 1969 | 486,246 | -- | 449,400 | 449,400 | -- |
| Crescent Jute Prod- ucts Ltd. | Textiles | 1965 | 1,950,000 | 1,205,579 | -- | 1,205,579 | -- |
| Packages Ltd. | Paper Products | 1965 | 3,151,662 | 1,207,000 | 604,945 | 1,811,945 | -- |
| Pakistan Paper Corp. Ltd. | Paper | 1967 | 5,219,088 | 2,872,543 | 2,019,088 | 4,891,631 | -- |
| Dawood Hercules Chemicals Ltd. | Fertilizers | 1969 | 3,923,254 | 1,000,000 | 2,923,254 | 3,923,254 | 1,000,000 |
| Karnaphuli Paper Mills Ltd. | Pulp & Paper | 1969 | 6,230,001 | CANCELLED | -- | -- | -- |
| | TOTAL | | <u>28,008,657</u> | <u>9,180,338</u> | <u>6,414,014</u> | <u>15,594,352</u> | <u>1,000,000</u> |

T. Baddar (IFC)
January 14, 1972

THE PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION LIMITED (PICIC)
(US\$1 = Rs. 4.76)

Bank Group Involvement

1. PICIC has received 8 Bank loans totalling \$183.4 million. (The 8th loan of \$40 million was made in May 1969). The amount now outstanding is \$122.5 million, of which about 40% or \$49 million in East Pakistan and about 60% or \$73.5 million in West Pakistan. Almost all the amount is committed; the undisbursed balance is only \$5 million. PICIC would probably have had a ninth loan a year ago, had it not been for the political and economic situation of Pakistan.
2. IFC holds 200,000 shares, which were subscribed in April 1963 at par (Rs. 10) at a total cost of \$449,400. This investment now pays a 12.5% dividend, and so far has yielded IFC a return of 9.18% per annum over the life of the investment. IFC has the right to nominate a director in PICIC's Board. Since January 1970, Sir Ernest Vasey has represented IFC.

Problems and Issues

3. Because of the recent development, PICIC has lost its East Pakistan investments with outstanding loans and investments amounting to Rs. 404 million or 32% of total portfolio. This loss is equivalent to 2.3 times PICIC's equity of Rs. 176 million. Also, the general economic slowdown in West Pakistan in 1971, that may continue at least during the formation of new Government policies, coupled with the loss of the East Pakistani market, will make it difficult for many of PICIC's clients to repay PICIC's loan as originally scheduled.
4. PICIC's ownership and staff are heavily concentrated in West Pakistan. Only 1.4% of PICIC's shares are held by East Pakistani firms and individuals. Only five directors in PICIC's Board of the total 21 are from East Pakistan. Only 20 professional staff out of PICIC's total of 129 are from East Pakistan, all of whom were assigned in Dacca office. PICIC's Management and Staff would be able to continue its operation in West Pakistan.
5. The main problem PICIC now faces is how to deal with the loss of East Pakistani projects. Pending the final settlement, PICIC may ask the Bank to consider rescheduling the repayments of Bank loans or ask for a suspension in respect of the amounts used to finance the East Pakistani projects.
6. Another issue concerns the Government view toward PICIC, whether it is to be nationalized or remain as a private company. As of now, there is no reason to believe PICIC will be nationalized; there is some reason to believe it will not. But PICIC's Board is likely to be transformed, and its policies may be reoriented.

Attachments: For ready reference, data on PICIC's breakdown for East and West Pakistan, are attached.

PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION

Ownership of the Share Capital as of September 30, 1971

| | <u>in Rs. million</u> | <u>% of total</u> |
|---|-----------------------|-------------------|
| East Pakistan | 0.81 | 1.4 |
| West Pakistan | 30.40 | 50.7 |
| Government of Pakistan indirectly ^{1/} | <u>6.57</u> | <u>10.9</u> |
| Total Pakistan | 37.78 | 63.0 |
| Foreign Financial Institutions | 20.22 | 33.7 |
| IFC | <u>2.00</u> | <u>3.3</u> |
| | <u>60.00</u> | <u>100.0</u> |

Domicile of Board of Directors as of September 30, 1971

| | <u>East Pakistan</u> | <u>West Pakistan</u> | <u>Total</u> |
|-------------------------------------|----------------------|----------------------|--------------|
| Elected Pakistani Directors | 4 | 8 | 12 |
| Representing Government of Pakistan | 1 | 2 | 3 |
| Foreign Directors | | | (4) |
| IFC Director | | | (1) |
| Managing Director | | | <u>1</u> |
| Total | <u>5</u> | <u>11</u> | <u>(21)</u> |

Location of Offices on September 30, 1971

| | <u>East Pakistan</u> | <u>West Pakistan</u> | <u>Total</u> |
|------------------|----------------------|----------------------|--------------|
| Head Office | - | 1 | 1 |
| Regional Offices | 1 | 1 | 2 |
| Branch Offices | - | <u>3</u> | <u>3</u> |
| Total | <u>1</u> | <u>5</u> | <u>6</u> |

Professional Staff as of September 30, 1971

| | <u>East Pakistan</u> | <u>West Pakistan</u> | <u>Total</u> |
|------------------|----------------------|----------------------|--------------|
| Head Office | - | 98 | 98 |
| Regional Offices | 20 | 8 | 28 |
| Branch Offices | - | <u>3</u> | <u>3</u> |
| Total | <u>20</u> | <u>109</u> | <u>129</u> |

All the staff work in the regions they come from, i.e. PICIC employed only 20 East Pakistanis on September 30, 1971.

^{1/} Owned by the National Bank of Pakistan which is controlled by the Government.

Loan Approvals from Inception to September 30, 1971

| | (Rs. million) | | | | 1971 up to Sept.30 | Total | |
|---------------|---------------|------|------|-----------------------|-----------------------|--------|---|
| | 1958 to 1968 | 1969 | 1970 | 1971 up to Sept.30 | | Amount | % |
| East Pakistan | 478 | 119 | 102 | 34 | 733 | 28.7 | |
| West Pakistan | 1,217 | 283 | 188 | 135 | 1,823 | 71.3 | |
| Total | 1,695 | 402 | 290 | 169 | 2,556 | 100.0 | |

Outstanding Loan Portfolio as of September 30, 1971

| | Rs. million | % |
|---------------|-------------|-------|
| East Pakistan | 378.4 | 32.1 |
| West Pakistan | 802.2 | 67.9 |
| Total | 1,180.6 | 100.0 |

Outstanding Investment Portfolio as of September 30, 1971

| | Rs. million | % |
|---------------|-------------|-------|
| East Pakistan | 25.8 | 27.3 |
| West Pakistan | 68.7 | 72.7 |
| Total | 94.5 | 100.0 |

Principal and Interest in Arrears as of September 30, 1971

| | Rs. million | % |
|---------------|-------------|-------|
| East Pakistan | 28.28 | 49.1 |
| West Pakistan | 29.31 | 50.9 |
| Total | 57.59 | 100.0 |

Status of Bank Loans as of November 30, 1971

| | Outstanding (\$ million) | % |
|---------------|--------------------------|-------|
| East Pakistan | 49.0 | 40.0 |
| West Pakistan | 73.5 | 60.0 |
| Total | 122.5 | 100.0 |

and West Pakistan are being calculated on the computer. The breakdown should be out on January 6 in the afternoon. The distribution is likely to be close to 50:50.

THE INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN LIMITED (IDBP)
(US\$1 = Rs. 4.76)

Bank Group Involvement

1. IDBP was granted an IDA Credit of \$20 million in February 1970. \$12.8 million is committed, of which \$4.6 million is in East and \$8.2 million in West Pakistan. Outstanding is \$6.2 million, of which \$1.2 million is in East and \$5 million in West Pakistan. Undisbursed is \$13.8 million.

Problems and Issues

2. IDBP Head Office in Dacca was moved to Karachi in December 1971. All East Pakistani staff including Mr. Huq, Managing Director, have been relieved of their duties. Whether documents, accounts and records kept at Dacca Head Office were transferred to Karachi is unknown. If not, this will no doubt cause problems for final settlement of IDBP's claims and liabilities with respect to East Pakistani projects.

3. East Pakistani shareholdings represent only 2.9% of IDBP's share capital. 60% of the shares are held by the Central Government and national institutions. Of the 11 directors of IDBP's Board, 4 are from East Pakistan. The distribution of ownership and directors will not cause immediate problems to IDBP's operation in West Pakistan. However, of the total professional staff of 361, about 175 are from East Pakistan. IDBP may have some staff constraints. Besides, it needs to have a new Managing Director and to supplement its top management staff vacated by East Pakistanis. Nevertheless, IDBP has been operating in West Pakistan and is likely to continue to operate.

4. IDBP has lost its investments in East Pakistan, with an outstanding amount of Rs. 466 million or 42% of total portfolio. This loss is more than 4 times IDBP's equity of Rs. 108 million. The effects of the bifurcation on IDBP will be similar to those on PICIC, but more serious than in PICIC's case, in view of its larger involvement in the East. Like PICIC, it will face difficulty in collecting loans from its clients in West Pakistan.

5. IDBP received an IDA Credit, and borrower is the Government. (In case of PICIC, the Government is guarantor, and PICIC the borrower.) Thus, IDBP may work out rescheduling of its repayments with the Government.

Attachment: For ready reference, data on IDBP, broken down for East and West Pakistan, are attached.

INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN

Ownership of the Rs. 50 million share capital as of June 30, 1971

| | <u>in Rs. million</u> | <u>% of total</u> |
|----------------------------------|-----------------------|-------------------|
| East Pakistan | 1.47 | 2.9 |
| West Pakistan | 19.26 | 38.5 |
| Government of Pakistan (Central) | 25.50 | 51.0 |
| Total Pakistan | <u>46.23</u> | <u>92.4</u> |
| Foreign Companies | <u>3.77</u> | <u>7.6</u> |
| Total | <u>50.00</u> | <u>100.0</u> |

Domicile of Board of Directors as of October 11, 1971

| | <u>East Pakistan</u> | <u>West Pakistan</u> | <u>Total</u> |
|------------------------------|----------------------|----------------------|---------------|
| Appointed by Government | | | |
| Chairman | 1 | - | 1 |
| Managing Director | 1 | - | 1 |
| Other (Government Officials) | 1 | 5 | 6 |
| Elected by shareholders | <u>1</u> | <u>2</u> | <u>3</u> |
| Total | <u>4</u> | <u>7</u> | <u>11</u> |

Location of Regional Offices and Branches as of September 30, 1971

| | <u>East Pakistan</u> | <u>West Pakistan</u> | <u>Total</u> |
|------------------|----------------------|----------------------|---------------|
| Head Office | 1 | - | 1 |
| Regional Offices | 1 | 2 | 3 |
| Branch Offices | <u>6</u> | <u>7</u> | <u>13</u> |
| Total | <u>8</u> | <u>9</u> | <u>17</u> |

Professional Staff as of June 30, 1971

| | <u>East Pakistan</u> | <u>West Pakistan</u> | <u>Total</u> |
|------------------|----------------------|----------------------|----------------|
| Head Office | 141 | - | 141 |
| Regional Offices | 78 | 98 | 176 |
| Branch Offices | <u>26</u> | <u>18</u> | <u>44</u> |
| Total | <u>245</u> | <u>116</u> | <u>361</u> |

70 West Pakistanis worked at the Head Office, Dacca on June 30, 1971. The number of East and West Pakistanis is thus 175 and 186 respectively.

Loan Approvals from inception to June 30, 1971

| | (Rs. million) | | | Total | |
|---------------|------------------------------|-----------------------------|----------------|---------------|------------|
| | <u>1961 to June 30, 1969</u> | <u>1969-70^{1/}</u> | <u>1970-71</u> | <u>Amount</u> | <u>%</u> |
| East Pakistan | 876 | 137 | 91 | 1,104 | 43 |
| West Pakistan | <u>1,261</u> | <u>122</u> | <u>90</u> | <u>1,473</u> | <u>57</u> |
| Total | <u>2,137</u> | <u>259</u> | <u>181</u> | <u>2,577</u> | <u>100</u> |

Outstanding Loan Portfolio as of June 30, 1970 and 1971

| | June 30, 1970 | | June 30, 1971 | |
|---------------|---------------|------------|---------------|------------|
| | <u>Amount</u> | <u>%</u> | <u>Amount</u> | <u>%</u> |
| East Pakistan | 426 | 43 | 464 | 42 |
| West Pakistan | <u>559</u> | <u>57</u> | <u>640</u> | <u>58</u> |
| | <u>985</u> | <u>100</u> | <u>1,104</u> | <u>100</u> |

Outstanding Investment Portfolio as of June 30, 1971

| | Rs. million | % |
|---------------|-------------|------------|
| East Pakistan | 1.5 | 16 |
| West Pakistan | <u>7.9</u> | <u>84</u> |
| Total | <u>9.4</u> | <u>100</u> |

Principal and Interest in Arrears as of June 30, 1971

| | (Rs. million) | | | |
|--------------------|----------------------|----------------------|---------------|------------|
| | <u>East Pakistan</u> | <u>West Pakistan</u> | <u>Total</u> | <u>%</u> |
| General IDBP cases | 36.12 | 48.52 | 84.74 | 61 |
| Administered loans | - | 34.76 | 34.76 | 25 |
| EPIDC | 6.13 | - | 6.13 | 4 |
| EPSIC | 3.13 | - | 3.13 | 2 |
| WPSIC | <u>-</u> | <u>10.40</u> | <u>10.40</u> | <u>8</u> |
| Total | <u>45.38</u> | <u>93.68</u> | <u>139.16</u> | <u>100</u> |
| % of total arrears | 33% | 67% | 100% | |

Credit No. 177-PAK as of November 30, 1971 (US\$)

| | East Pakistan | | West Pakistan | | Total | |
|------------|---------------|------------------|---------------|------------------|------------|-------------------|
| | <u>No.</u> | <u>Amount</u> | <u>No.</u> | <u>Amount</u> | <u>No.</u> | <u>Amount</u> |
| Authorized | <u>6</u> | <u>4,654,606</u> | <u>43</u> | <u>8,134,803</u> | <u>49</u> | <u>12,789,409</u> |
| Disbursed | <u>1</u> | <u>1,222,376</u> | <u>-</u> | <u>4,958,199</u> | <u>-</u> | <u>6,180,575</u> |

1/ IDBP's fiscal year is from July 1 to June 30.

OFFICE MEMORANDUM

TO: Records

DATE: October 5, 1971

FROM: Michael H. Wiehen

CONFIDENTIALSUBJECT: Annual Meeting 1971: Meeting of Pakistan
Delegation with Mr. McNamara

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1. A meeting of the Pakistan Delegation with Mr. McNamara took place on Wednesday, September 29, 1971, at 8:30 a.m. in the Sheraton Park Hotel. The Pakistan Delegation comprised:

Mr. S. U. Durrani, Governor, State Bank of Pakistan
Mr. Aziz Ali F. Muhammed, Adviser, Ministry of Finance
Mr. M. Syeduzzaman, Joint Secretary, Ministry of Finance
Mr. S. Osman Ali, Executive Director, IBRD
Mr. A. R. Bashir, Economic Minister, Pakistan Embassy.

Also present: Messrs. J. Burke Knapp, I.P.M. Cargill, G.B. Votaw, M.G. Blobel, D.L. Gordon, and M.H. Wiehen.

2. Mr. Durrani opened the meeting by expressing his regret that Mr. M.M. Ahmed was not able to attend the Annual Meeting as he had planned to do. Mr. McNamara asked Mr. Durrani to transmit his best wishes for a speedy recovery to Mr. M.M. Ahmed.

3. Thereafter Mr. Durrani, with reference to the Bank's June 1971 report on East Pakistan, said his Government would like to know what precautions the Bank had taken to assure that its reports would in future not be available to those for whom they were not intended. The question remained unanswered.

4. Mr. Durrani then briefly described the present political and economic situation in Pakistan, with the following major points: The general amnesty declared for participants in East Pakistan's disturbances has partially restored confidence. A new constitution was about to be announced; it would be presented to the National Assembly after the by-elections which are necessary to fill vacant seats in East Pakistan. The by-elections would now, after a brief postponement, be held in late December; and the National Assembly would convene early next year. The appointment of Dr. Malik as the head of a civilian government in East Pakistan was a big step forward.

5. Regarding the economic situation, Mr. Durrani first summarized the findings of a State Bank report on East Pakistan that was prepared last August (and of which he had earlier given copies to the Bank staff). He highlighted the situation of the jute sector; while movement of jute at all levels had been completely disrupted, the very special efforts of the Government in this field had been successful, and jute was moving again in satisfactory volumes (during July exports reached 75 percent of July 1970 levels). All commercial bank branches (except for 9 in border areas) have been reopened, special bank booths have been set up in jute collection areas, and in some regions cash would be flown in by helicopter every day if necessary. Industrial activity has reached high levels, and production was about 65 to 75 percent of normal.

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October 5, 1971

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Foodgrains are reaching Chittagong in sufficient volume, and arrangements for movement up-country are well in hand. The recent monsoon floods had caused considerable damage (value of foodgrains destroyed about \$50 million, other property damage about \$60 million), about 6.5 million people had been affected by the floods, and consequently imports of foodgrains into East Pakistan would have to be increased to 2.5 million tons in FY 1972. A very large public sector program has been prepared to cope with the specific problems facing East Pakistan; about Rs. 250 million (approximately US \$50 million equivalent) would be spent this fiscal year for rehabilitation (Rs. 150 million) and for reconstruction (Rs. 100 million). About one-fourth of total development outlays would be channeled into rural works. In general, ongoing and flood control projects would have high priority.

6. In West Pakistan, the public sector is severely squeezed, and Pakistan's balance of payments problem is causing a serious constraint on the use of industrial capacity. While great success was being achieved in expanding exports, sound balance of payments management would be impossible if all debt service were to be paid in full.

7. Mr. Durrani continued that it was in this context that his Government had requested debt relief from the Consortium, and that the absolute minimum needed to overcome the present difficulties was \$90 million for the current fiscal year. He recalled that only a few years ago Pakistan had been cited as a model for sound economic development and said that, while at present no developmental progress was being made, the question was how fast Pakistan would be able to revert to its previous position. With particular regard to the informal meeting of Consortium members set for October 2, Mr. Durrani requested that the Bank play the role not of a neutral chairman, but of an active leader, initiating new assistance for Pakistan and also setting a date for a full Consortium meeting to discuss long-term debt relief and other long-range assistance.

8. Mr. McNamara replied that by calling the October 2 meeting the Bank had indeed taken considerable initiative. This was done even though Consortium members had shown no enthusiasm at all to discuss the subject of debt relief. It was not clear how far the Consortium countries were prepared to go at this time, but the first hurdle to be taken clearly was to neutralize the problems caused by Pakistan's moratorium. Mr. McNamara said that one should be quite satisfied that all Consortium members were at least prepared to attend the October 2 meeting. Mr. Cargill added that he felt several decisions taken recently by President Yahya were steps toward a political solution, and that these should be given emphasis in Pakistan's bilateral discussions with Consortium countries. Mr. McNamara concluded the discussion of this subject by reiterating that the Bank would not get involved in such political considerations, but that these matters were important for Pakistan's talks with its bilateral creditors.

9. In response to Mr. Durrani's question when the Bank/IDA would resume normal activities in Pakistan, Mr. Cargill stated that fresh commitments could hardly be made in the absence of a development plan, and that the Bank would instead concentrate first on a reactivation of the existing projects in East Pakistan. Mr. McNamara confirmed this view, citing as a particularly unfortunate example the Cyclone Reconstruction project, which had been approved by the

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Executive Directors within 60 days after the cyclone; and on which now, almost nine months later, no progress had been made at all. Mr. Cargill said that a technical mission would visit East Pakistan in about 10 days to determine whether conditions allow implementation of this project to start. Mr. Osman Ali expressed the hope that this mission would lead to some action by the Bank, and not just to another mission, as he claimed had happened in the past. Mr. Durrani emphasized that this project was related to a particular purpose -- reconstruction of cyclone damage -- and that with an even longer delay the project would be less and less effective. Mr. McNamara agreed with the need for action as soon as feasible, but he said that as long as cash had to be flown to jute buyers by helicopter, the situation could not really be considered normal. Besides, he added, there were very few disbursement requests on other projects where action depended entirely on the Government authorities.

10. Mr. Aziz Ali, with reference to the immense shortage of rupees in Pakistan and the heavy flow of debt service payments to the Bank in the next few years, asked whether the Bank/IDA would consider non-project lending to Pakistan in the next year or two. Mr. McNamara replied that he would not rule this out during the entire period mentioned by Mr. Aziz Ali, but that in the present circumstances he could not recommend anything to the Executive Directors.

11. In conclusion, Mr. McNamara said that the reactivation of existing projects should get priority attention; and that other Bank activities in Pakistan would depend substantially on the progress achieved with existing projects and also on the outcome of the October 2 meeting of the Consortium.

cc: Mr. R.S. McNamara
Mr. J.B. Knapp
Mr. I.P.M. Cargill
Mr. G.B. Votaw
Mr. C.G.F.F. Melmoth - 10-3/inf
Mr. M.G. Blobel
Mr. M.H. Wiehen

MHWiehen/lgl

Ann. Rept. Brief

Messrs. McNamara and Knapp

September 28, 1971

I. P. M. Cargill

PAKISTAN - Discussions about Debt Relief

As you will remember, Mr. Aziz Ali arrived here with instructions to seek the Bank's support for debt relief from the bilateral members of the Consortium in the order of US \$150 million during the twelve-month period starting November 1, 1971. This was an amount very much larger than had been discussed between Mr. Maurice Williams and Mr. M. M. Ahmad in Islamabad in early September. In our view an amount of about US \$75 million would be appropriate, assuming a small reduction in imports into West Pakistan during the current fiscal year. You will recall that in our September 17th note to the Consortium we had used, for illustrative purposes, amounts of US \$60, 75 and 90 million. After our initial discussions with Aziz Ali last week, he reported to Islamabad and asked for new instructions.

In a private meeting with Mr. Durrani last Sunday, I pointed out that reactions from members of the Consortium to the invitation to the October 2nd meeting had been mixed and that at this point there was indeed considerable reluctance to discuss the issue of debt relief and that there was no possibility of obtaining new commitments of aid. I added that in my view it was important in these circumstances to deal in the first place with the problems created by Pakistan's default on debt service payments since May, 1971, and that hopefully this would facilitate renewed active relations between Pakistan and the Consortium. I concluded that, while I would not want to argue the merits of either US \$75 or 90 million in debt relief, my strong inclination was to attempt to obtain agreement on the lower of these figures simply because by not being too ambitious, we had a much better chance of success.

Mr. Durrani seemed to understand what I was saying. He stressed the very difficult political situation existing in Pakistan at the present time. He said that there were those who were arguing strongly in favor of forgetting about all aid unless Pakistan's creditors showed that they were responsive to Pakistan's immediate difficulties. Despite these difficulties, he was prepared to accept limiting the period covered by any agreement to the present fiscal year ending June 30, 1972, but he would very much prefer the amount of debt relief to be in the order of US \$90 million. He suggested that the amount agreed upon might be made to look like US \$90 million by including in it any new offers of assistance that might be forthcoming for the import of fertilizer or other such commodities into West Pakistan. However, I should point out that in reply to earlier cables sent by Aziz Ali, the Government had said that while it would not insist on debt relief of US \$150 million, the minimum it would seek would be US \$125 million.

September 23, 1971

Mr. Durrani told me that he sent cables reporting our conversation to Islamabad and asked that any instructions relayed to him be first cleared with President Yahya Khan. As yet he has not received a response to the recommendations he says he made.

This is where the matter stands at the moment. We expect to continue our discussions with Mr. Durrani during the next few days.

INFORMATION MEDIA IN PAKISTAN

The Press

Pakistan's press is largely a remnant of the Muslim press that became prominent during the struggle for the national State (1940-47). The first Urdu-language newspaper, the daily Urdu-Akhbar, was founded in 1836. After 1945, with the introduction of modern equipment, the more influential English newspapers, such as Dawn and Pakistan Times, were firmly established, while several new Urdu newspapers, for example Shahbaz, Nawa-i-Waqt and Imroz, became very popular.

In West Pakistan there are 12 English dailies, 62 Urdu dailies and 10 in regional languages. In addition there are 230 weeklies and 16 bi-weeklies. These together with other publications number in all 1,222.

The Urdu press comprises 550 newspapers, with Afaq, Nawa-i-Waqt and Zamindar being the most influential. The largest daily is Jang (200,000 circulation). Though the English-language press reaches only 1 per cent of the population and totals 150 publications, it is influential in political, academic and professional circles.

There are a number of press laws which govern entry into newspaper publishing. Since the press in Pakistan is politically oriented, a rather strict press censorship operates. Thus, for example, the Penal Code may declare certain activities by the press to be "offences against the State" or "against public tranquillity".

| <u>Newspaper</u> | <u>Circulation</u> | <u>Published in</u> | <u>Editor</u> |
|------------------|--------------------|------------------------|--|
| Dawn | 49,000 | Karachi | J. Ansari (English edition) G.N.H. Mansuri (Gujarati ed.) |
| Pakistan Times | 52,000 | Lahore and Rawalpindi | K. M. Asaf |
| Afaq | 15,000 | Lahore and Lyallpur | Nur Ahmed |
| Nawa-i-Waqt | 44,000 | Lahore and Rawalpindi | Majid Nizami |
| Zamindar | 16,000 | Lahore and Rawalpindi | M. A. Khan |
| Jang | 200,000 | Karachi and Rawalpindi | Mir Khalil-ur-Rahman |

Radio

Radio Pakistan has a network of six main stations in the western wing -- in Karachi, Hyderabad, Lahore, Rawalpindi, Peshawar and Quetta. The high-power short-wave transmitters at Karachi help link the zonal stations for the relay of national programs and the centralized news service. There are 68 newscasts daily in 22 languages, including English, Urdu and Bengali. Ten external program services are also put out daily.

There may be about 1 million radio sets in Pakistan.

Television

Pakistan Television Corporation Ltd. has programs daily, except Monday, 1800-2200 hours. There are extended transmissions on Fridays and Saturdays. The main stations are in Islamabad-Rawalpindi, Karachi and Lahore.

Rebroadcast stations were planned for Lyallpur and Hyderabad.

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PAKISTAN - COUNTRY PROGRAM NOTE

IBRD/IDA Lending/Operations Program (US \$ million)

| | <u>FY 64-68</u> | <u>FY 69-73</u> | <u>FY 72-76</u> | |
|--|--|-----------------|-----------------|------|
| | <u>Lending Program</u> | | | |
| | <u>Pakistan</u> | | | |
| 1970 Population: 135 million | <u>Total</u> | 494 | 719 | 710 |
| East Pakistan 73 million | IBRD | 162 | 284 | 110 |
| West Pakistan 62 million | IDA | 332 | 435 | 600 |
| 1970 per cap. GNP: US\$120 | | | | |
| | <u>Operations Program</u> | | | |
| | <u>East Pakistan</u> | | | |
| Current Pop. Growth Rate: 2.8-3.2%p.a. | IBRD | 180 | 425 | 655 |
| | IDA | 26 | 31 | 20 |
| Current Exch. Rate: Rs. 4.76=US\$1.00 | IDA | 154 | 394 | 635 |
| | <u>West Pakistan</u> | | | |
| | IBRD | 314 | 440 | 380 |
| | IDA | 136 | 253 | 90 |
| | IDA | 178 | 187 | 290 |
| | <u>Pakistan</u> | | | |
| | <u>Total</u> | 494 | 865 | 1035 |
| | IBRD | 162 | 284 | 110 |
| | IDA | 332 | 581 | 625 |
| | <u>Annual Average Per Capita (US \$)</u> | | | |
| | IBRD/IDA | 0.73 | 1.03 | 0.93 |
| | IDA | 0.49 | 0.63 | 0.79 |

Introduction

1. The orderly manner in which elections to Pakistan's Constituent Assembly were held last December resulted in the establishment of two strong political groups and offered some prospect that the Assembly would be able to agree on a workable constitution. As a result there was hope that President Yahya could keep to his timetable and transfer power to a democratically elected government by the middle of 1971. The new Government -- dominated by East Pakistanis -- was expected to emphasize the development of East Pakistan, although it was obvious that the willingness of West Pakistanis to make sacrifices in favor of the East Wing was limited. Meanwhile, the present caretaker Government continued to promise a substantial liberalization of the exchange system and preparation of a major reform of taxation. These measures would have set the stage for a sizeable increase in development expenditures, principally benefitting East Pakistan, as well as for major improvements in the allocation of resources and the balance of payments position. Under these promising assumptions there was reason to hope that the basis for future development of the economy would be strengthened.

2. Reflecting the Government's business-as-usual attitude and in the hope that the immediate task of economic management confronting the civilian Government could be eased considerably if some of the major issues of economic policy were resolved during the caretaker period, we endeavored to support such constructive action as the military Government was prepared to take. More specifically, in consultation with Consortium members we prepared a package of immediate financial support for the exchange reform, which would be needed to supplement a US \$125 million standby facility from the Fund. As for the longer term, we would have pressed the Consortium to provide financial assistance, including debt relief, to Pakistan in somewhat larger amounts and on better terms than during previous years. We were prepared to convene a special Consortium meeting to assure coordinated assistance for the development of East Pakistan's water and agriculture sector. The IDA operations program for FY 1971 was maintained at a level which could have ensured lending of up to US \$95 million had the exchange reform been implemented. IBRD lending of US \$40.5 million was proposed, consistent with a long-term policy of averaging lending levels to an amount -- taking several years together -- roughly equal to repayments of principal on earlier Bank loans to Pakistan.

Recent Developments and Outlook

3. In the event, the discussions between the two strongest political leaders -- Mujibur Rahman and Bhutto -- led to a hardening of positions, resulting in turn in: (a) Bhutto's threat to boycott the Assembly, (b) an indefinite postponement of the Assembly by Yahya, (c) a general strike called by Mujib and some disorders in East Pakistan, (d) the President hurriedly reversing himself and calling the Assembly to meet on March 25, and (e) a demand by Mujib to discontinue martial law. Mujib has now called for administrative autonomy for East Pakistan and immediate transfer of power to the elected politicians; this may in the end be agreed. But in any case, it is already apparent that the Central Government can no longer exercise effective control in East Pakistan.

4. As this is being written, Yahya is in Dacca for discussions with Mujib. No reliable reports are available on these discussions. However, the force of developments over the last several weeks appears to point strongly towards autonomy for East Pakistan. The issues at this stage relate to the degree of autonomy -- complete separation of the two wings or a loose federation of the five provinces, with a weak central authority. They also relate to the modalities of effecting the constitutional change and especially the question whether serious negotiations will be conducted in the Constituent Assembly, or outside. In the background, of course, looms the army; it is still uncertain whether it will accept, without a show of force, a constitutional solution that would, at the very least, substantially weaken the role of the Central Government.

5. Meanwhile, economic conditions in Pakistan continue to deteriorate rapidly. If foreign exchange reserves continue their decline at the January 1971 rate (a reserve loss of US \$40 million, which followed a loss of US \$100 million in the July-December 1970 period and reduced reserves as of January 31, 1971 to US \$160 million), Pakistan will face a major foreign payments crisis in another month or two. These reserve losses reflect partly the serious overvaluation of the rupee, but principally speculation arising out of the

widely-publicized plans for devaluation and the flight of capital from Pakistan occasioned by numerous political statements about nationalization of private assets; large increases in military imports appear to have been another factor. In East Pakistan, the dislocation caused by last November's cyclone was compounded by the general strike in early March, which stopped all administrative activity; in addition, the internal resource situation of East Pakistan was aggravated by a substantial capital flight to West Pakistan and by Mujib's instructions -- since revoked -- to suspend the payment and collection of taxes.

6. In the current political circumstances a meaningful reform of the exchange system cannot be carried out, and a reform of the tax system also appears a long way off. Development spending has dropped substantially below the level of previous years. An external payments crisis appears likely in the next few months, in which case Pakistan will certainly need emergency help from the international community. The Government might at that time try to carry out an exchange reform in the form negotiated earlier, but this can no longer be regarded as appropriate, and the IMF has therefore offered to discuss with Government possible alternative, temporary measures to deal with the exchange situation. In this context, the IMF may consider allowing a first tranche drawing of about US \$60 million to avoid economic collapse. In addition, some assistance may be required from the Consortium. It is for this eventuality as well as for the possibility that at a later stage some fundamental reform of the exchange system might again become feasible, that we are attempting to hold together the supporting package from the Consortium. However, for the time being all meetings of the Pakistan Consortium have been postponed indefinitely (although a meeting in May is still contemplated and could be held if any useful purpose would be served).

7. We have for some time been considering the development problems and needs of the two wings separately, in order to be prepared if, in future, we have to deal with two largely (or fully) autonomous entities, but there is still much work to be done before such issues as creditworthiness or monetary, fiscal and balance of payments prospects, previously dealt with in common, could be judged separately for each of the two wings. On first reading it appears that, while there may be some short-term advantages to East Pakistan from a formal separation, the longer-run consequences would be negative. The reverse appears true for West Pakistan; present central budget responsibilities (like maintenance of the army) could create a situation in West Pakistan where allocations for development have to be cut drastically. Furthermore, the overwhelming amount of Pakistan's total foreign debt (including about 90 percent of effective loans held by the Bank and 60 percent of effective credits held by IDA) is related to projects in West Pakistan, and West Pakistan would almost certainly require an immediate moratorium on debt service payments. A reform of the exchange system, including a substantial devaluation, as well as major fiscal reforms, would be needed and probably be unavoidable in both wings; the appropriate exchange rate and related measures would probably differ.

Foreign Assistance to Pakistan

8. While the present stalemate exists, large-scale external development lending to Pakistan cannot continue. Political problems will receive priority attention. Projects requiring Central Government sanction and

financing will be delayed, including unfortunately, all major water and agriculture projects in East Pakistan. Whether the two wings formally separate or continue as autonomous units in a new confederation, aid-giving agencies will have to establish new relationships; aid-givers will also have to determine whether traditional amounts of assistance are to be split between the two wings (and in what proportions), or whether the total would also be affected; these considerations, together with the necessary legal formalities (e.g., for acquiring or adjusting membership in the Fund and Bank in the event of a split) will most likely cause substantial delays. Clearly, the only condition under which lenders could be expected to proceed with their present assistance programs would be an early agreement among Yahya, Mujib and Bhutto on a workable constitution, which would avoid formal separation.

Bank/IDA Operations

9. A meaningful long-range lending program is obviously impossible in the circumstances. For the time being, we continue to process new projects as outlined in Attachment 1. We will have to decide on an ad hoc basis whether to submit negotiated projects to the Board for consideration, or to defer them until a more definite picture of Pakistan's development prospects emerges. For example, if the present talks between Yahya and Mujib are successful, we would recommend the proposed loan for Karachi Electric Supply Corporation, which was negotiated this week; we would also recommend proceeding with the proposed credit for the Second East Pakistan Foodgrain Storage project, once one remaining issue has been resolved with the Government of East Pakistan.

10. Several other projects have been appraised and should be ready for negotiations in the next few weeks. A mission appraising a reclamation project in West Pakistan is presently in the field, and a comprehensive survey of the livestock sector in West Pakistan is scheduled to commence shortly. Supervision of ongoing projects will continue, although we have to accept that it may be difficult, for some time, to have meaningful discussions of policy issues with the appropriate officials. Regarding East Pakistan, we aim to resume activities there as soon as missions can function normally again. Economic work is also continuing, with emphasis on an assessment of the consequences of separation; an economic mission is presently in West Pakistan, and a report on the status of the economy should be available in a few weeks.

11. Political uncertainties, however, are by no means the only obstacles to Bank/IDA operations in Pakistan. Others are the problems associated with creditworthiness, the deferment of exchange and fiscal reform, and limited administrative (implementation) capacity which may well deteriorate further as a result of changes now going on. In the case of West Pakistan, an additional major problem is caused by the rupee requirements of Indus/Tarbela, which will during the next few years amount to some Rs. 400 million annually.

12. The six-year lending program set forth in Attachment 1, therefore, has to be considered as highly speculative and subject to adjustments -- probably of major magnitude -- as the future of Pakistan unfolds. However, a few guiding principles can and should be established now: (i) While Bank lending has, in Attachment 1, been projected to continue at a rate of about US \$25-30 million of new commitments per annum over the six-year period, there will be serious questions about Pakistan's capacity to incur any further

debt on Bank terms (other than the proposed \$10.5 million loan to KESC referred to in paragraph 9 which we consider to be a special case) unless the unity of Pakistan is preserved and satisfactory exchange and fiscal reforms are implemented. Consequently, all further Bank lending should be suspended for the time being, which means inter alia that PICIC will have to be shifted to IDA or substantially deferred. (ii) As far as IDA is concerned -- assuming the present administrative difficulties are resolved and Pakistan's unity is preserved -- lending should continue. But it does not appear justified in the absence of an exchange reform to exceed in FY 71 an amount of about US \$70 million (including the US \$25 million East Pakistan Reconstruction Project), which, together with the US \$77.2 million of FY 70, would give Pakistan 12.5 percent of the total available during the two-year period. (iii) If a de facto or de jure separation of the two wings should occur, our whole posture will have to be reviewed, taking into account the economic base and viability of each wing, including in particular a satisfactory agreement between Bank/IDA and each of the two wings about the assumption of old liabilities and the responsibility for debt service.

EAST & WEST PAKISTAN - ACTUAL & PROPOSED LENDING THROUGH FY 1976

(U.S. \$ Millions)

| | | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | Total 1964-68 | Total 1969-73 | Total 1972-76 | |
|--------------------------------------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------------------|------------------|------------------|--|
| East & West Loans/Credits | | | | | | | | | | | | | | | | | | | |
| Agricultural Credit ADB I | IDA | | | 27.0 | | | 10.0 | | | | | | | | | | | | |
| Agricultural Credit ADB II | IDA | | | | | | | 30.0 | | | | | | | | | | | |
| Agricultural Credit ADB III | IDA | | | | | | | | | | | 25.0 | | | | | | | |
| Agricultural Credit ADB IV | IDA | | | | | | | | | | | | | 25.0 | | | | | |
| Agricultural Credit ADB V | IDA | | | | | | | | | | | | | | | | | | |
| DFC - PICIC I-IV | IBRD | 49.2 | | | | | | | | | | | | | | | | | |
| DFC - PICIC V | IBRD | | 30.0 | | | | | | | | | | | | | | | | |
| DFC - PICIC VI | IBRD | | | | 30.0 | | | | | | | | | | | | | | |
| DFC - PICIC VII | IBRD | | | | | | 35.0 | | | | | | | | | | | | |
| DFC - PICIC VIII | IBRD | | | | | | | 40.0 | | | | | | | | | | | |
| DFC - PICIC IX | IBRD | | | | | | | | | 30.0 | | | | | | | | | |
| DFC - PICIC X | IBRD | | | | | | | | | | | 30.0 | | | | | | | |
| DFC - PICIC XI | IBRD | | | | | | | | | | | | | 30.0 | | | | | |
| DFC - IDBP I | IDA | | | | | | | | 20.0 | | | | | | | | | | |
| DFC - IDBP II | IDA | | | | | | | | | | | 20.0 | | | | | | | |
| DFC - IDBP III | IDA | | | | | | | | | | | | | 20.0 | | | | | |
| Industrial Imports I | IDA | | | | | 25.0 | | | | | | | | | | | | | |
| Industrial Imports II | IDA | | | | | | | | | | 30.0 | | | | | | | | |
| Commercial Vehicles | IDA | | | | 25.0 | | | | | | | | | | | | | | |
| Railways I-V | IBRD | 93.8 | | | | | | | | | | | | | | | | | |
| Telecommunications I | IDA | | | | | | | 16.0 | | | | | | | | | | | |
| Telecommunications II | IDA | | | | | | | | 15.0 | | | | | | | | | | |
| Telecommunications III | IDA | | | | | | | | | | | | 30.0 | | | | | | |
| Telecommunications IV | IDA | | | | | | | | | | | | | | 30.0 | | | | |
| East & West Pakistan | | | | | | | | | | | | | | | | | | | |
| Operations Program | IBRD | | | | | | | | | 30.0 | | 30.0 | | | | | | | |
| | IDA | | | | | | | | | | | 30.0 | | | | | | | |
| | TOTAL | | | | | | | | | | | 75.0 | 30.0 | 30.0 | 30.0 | 95.0 | 100.0 | 60.0 | |
| Lending Program | IBRD | 143.0 | 30.0 | | 30.0 | | 35.0 | 40.0 | | | | | | | | | | | |
| | IDA | | | 27.0 | 25.0 | 25.0 | 10.0 | 46.0 | 35.0 | | | | | | | | | | |
| | TOTAL | 143.0 | 30.0 | 27.0 | 55.0 | 25.0 | 45.0 | 86.0 | 35.0 | | | | | | | | | | |
| All Pakistan | | | | | | | | | | | | | | | | | | | |
| Operations Program | IBRD | | | | | | | | | 40.5 | 30.0 | 40.0 | | 40.0 | | | | | |
| | IDA | | | | | | | | | 75.0 | 177.0 | 203.0 | 195.0 | 180.0 | 170.0 | | | | |
| | TOTAL | | | | | | | | | 116.0 | 207.0 | 243.0 | 195.0 | 220.0 | 170.0 | | | | |
| | No. 1/ | | | | | | | | | 8 | 12 | 12 | 8 | 9 | 7 | | | | |
| Lending Program | IBRD | 299.5 | 62.0 | | 30.0 | 35.0 | 35.0 | 154.5 | 19.2 | 40.5 | 30.0 | 40.0 | | 40.0 | | 162.0 | 284.2 | 110.0 | |
| | IDA | 32.5 | 146.5 | 90.8 | 57.2 | 27.8 | 10.0 | 48.0 | 77.2 | 70.0 | 120.0 | 120.0 | 120.0 | 120.0 | 120.0 | 332.3 | 435.2 | 600.0 | |
| | TOTAL | 332.0 | 208.5 | 90.8 | 87.2 | 62.8 | 45.0 | 202.5 | 96.4 | 110.5 | 150.0 | 160.0 | 120.0 | 160.0 | 120.0 | 494.3 | 719.4 | 710.0 | |
| IBRD o/s inc. undisbursed | | 255.2 | 306.9 | 292.9 | 311.8 | 331.1 | 350.0 | 485.6 | 467.0 | 502.7 | 506.7 | 516.3 | 489.7 | 503.7 | 480.8 | | | | |
| exc. undisbursed | | 113.7 | 125.1 | 139.7 | 154.2 | 175.4 | 218.9 | 262.5 | 310.7 | 339.7 | 367.9 | 403.6 | 417.0 | 431.1 | 455.2 | | | | |
| IBRD - gross disbursements | | | 21.7 | 28.4 | 25.5 | 36.1 | 59.3 | 62.5 | 66.7 | 53.0 | 54.2 | 66.1 | 40.0 | 40.1 | 47.0 | 171.0 | 302.5 | 247.4 | |
| - net disbursements | | | 12.7 | 18.4 | 14.9 | 23.2 | 44.3 | 44.8 | 48.2 | 29.0 | 28.4 | 35.7 | 13.4 | 14.1 | 24.1 | 113.5 | 186.1 | 115.7 | |
| - net transfer | | | 4.9 | 10.2 | 4.2 | 11.2 | 33.3 | 31.3 | 8.9 | 9.9 | 7.4 | 13.6 | -8.2 | -6.8 | 4.2 | 63.8 | 71.1 | 10.2 | |
| IBRD/IDA - gross disbursements | | | 23.1 | 61.5 | 74.6 | 103.7 | 123.3 | 91.7 | 93.7 | 132.5 | 140.6 | 150.3 | 131.0 | 130.1 | 167.0 | 386.2 | 608.8 | 719.0 | |
| - net disbursements | | | 14.1 | 51.5 | 64.0 | 90.8 | 108.3 | 74.0 | 75.1 | 108.4 | 114.7 | 119.6 | 104.7 | 102.2 | 141.4 | 328.7 | 501.8 | 582.6 | |
| - net transfer | | | 6.3 | 43.3 | 53.0 | 78.1 | 95.8 | 58.9 | 54.0 | 86.9 | 91.0 | 94.7 | 80.3 | 78.5 | 118.7 | 276.5 | 385.5 | 463.2 | |

1/ East Pakistan Agriculture and Water block allocations 1972 - 1976 counted as one.

PAKISTAN

INDICATORS OF DEVELOPMENT

| | UNIT | Annual Average | | | | |
|--|-------------------|----------------|-------------|-------------|-------------|-------------|
| | | 1951-60 | 1961-65 | 1966-70 | 1971-75 | |
| I. ECONOMIC & STRUCTURAL INDICATORS | | | | | | |
| 1. Gross Domestic Product(in constant prices) | % Change | 2.5 | 5.5 | 5.7 | 6.5 | |
| 2. Manufacturing Output | % Change | 7.4 | 9.9 | 7.0 | 10.5 | |
| 3. Agricultural Output | % Change | 1.3 | 3.3 | 4.2 | 5.3 | |
| 4. Imports of Goods and NFS | % Change | 7.8 | 16.5 | 3.5 | -- | |
| 5. Exports of Goods and NFS | % Change | 8.0 | 7.9 | 8.1 | 8.5 | |
| 6. Domestic Price Level | % Change | 2.9 | 1.4 | 5.2 | -- | |
| 6a. Export Price Level | % Change | -6.5 | 1.0 | 0 | 0 | |
| | | <u>1950</u> | <u>1960</u> | <u>1965</u> | <u>1970</u> | <u>1975</u> |
| 7. Gross National Savings | % GDP | 2.2 | 9.2 | 11.7 | 10.8 | 16.9 |
| 8. Resource Gap | % GDP | 1.3 | 2.5 | 6.6 | 2.8 | 4.5 |
| 9. Net Factor Payments Abroad | % GDP | 0.09 | 0.1 | 0.02 | 0.01 | .01 |
| 10. Gross Domestic Investment | % GDP | 3.5 | 11.7 | 18.3 | 13.6 | 21.4 |
| 11. Debt Service | % exports | 3.2 | 10.0 | 14.6 | 20.3 | 20.3 |
| 12. Central Govt. Current Revenue | % GDP | 6.1 | 7.8 | 7.2 | 7.5 | -- |
| 13. Central Govt. Curr. Surplus (Deficit) | % GDP | 0.1 | 0.5 | 1.2 | 1.7 | -- |
| 14. Public Exp. on Social Services | % GDP | 4.1 | 6.5 | 10.2 | -- | -- |
| 15. Military Expenditure | % GDP | 3.0 | 3.2 | 5.4 | 3.5 | -- |
| 16. Manufacturing Output | % GDP | 7.0 | 9.3 | 11.5 | 12.1 | -- |
| 17. Energy Consumption | million tons | 2.8 | 6.3 | 9.1 | 9.9 | -- |
| 18. Fertilizer Consumption | 1000 tons | 7.2 | 34.1 | 109.2 | -- | -- |
| II. SOCIAL INDICATORS | | | | | | |
| 19. Population Growth Rate | % | 0.7 | 3.0 | 3.1 | 3.1 | 2.9 |
| 20. Urban Population Growth Rate | % | 4.7 | 5.2 | 5.5 | 6.0 | -- |
| 21. Birth Rate | Per 1,000 popln | -- | 55 | 49 | 45 | 42.5 |
| 22. Family Planning | Acceptors | -- | -- | 620 | 1,300 | -- |
| 23. Income of: Highest quintile | % total income | -- | -- | 42 | -- | -- |
| 24. : Lowest quintile | % total income | -- | -- | 10 | -- | -- |
| 25. School enrollment: Primary & Secondary | % school-age popn | 20 | 26 | 27 | -- | -- |
| 26. Literacy rate | % adult popn | -- | 19 | -- | -- | -- |
| 27. Unemployment rate | % labor force | -- | -- | 20.4 | 17.7 | 13.3 |
| 28. Population per hospital bed | Number | 4,536 | 3,666 | 3,211 | 3,459 | 2,492 |

INFORMATION MEDIA IN PAKISTAN

The Press

Pakistan's press is largely a remnant of the Muslim press that became prominent during the struggle for the national State (1940-47). The first Urdu-language newspaper, the daily Urdu-Akhbar, was founded in 1836. After 1945, with the introduction of modern equipment, the more influential English newspapers, such as Dawn and Pakistan Times were firmly established, while several new Urdu newspapers, for example Shahbaz, Nawa-i-Waqt and Inroz, became very popular.

In West Pakistan there are 12 English dailies, 62 Urdu dailies and 10 in regional languages. In addition there are 230 weeklies and 16 bi-weeklies. These together with other publications number in all 1,222.

The Urdu press comprises 550 newspapers, with Afaq, Nawa-i-Waqt and Zamindar being the most influential. The largest daily is Jang (200,000 circulation). Though the English-language press reaches only 1 per cent of the population and totals 150 publications, it is influential in political, academic and professional circles.

There are a number of press laws which govern entry into newspaper publishing. Since the press in Pakistan is politically oriented, a rather strict press censorship operates. Thus, for example, the Penal Code may declare certain activities by the press to be "offences against the State" or "against public tranquillity".

| <u>Newspaper</u> | <u>Circulation</u> | <u>Published in</u> | <u>Editor</u> |
|-----------------------|--------------------|------------------------|--|
| <u>Dawn</u> | <u>49,000</u> | Karachi | J. Ansari (English edition) G.N.H. Mansuri (Gujarati ed.) |
| <u>Pakistan Times</u> | <u>52,000</u> | Lahore and Rawalpindi | K. M. Asaf |
| <u>Afaq</u> | <u>15,000</u> | Lahore and Lyallpur | Nur Ahmed |
| <u>Nawa-i-Waqt</u> | <u>44,000</u> | Lahore and Rawalpindi | Majid Nizami |
| <u>Zamindar</u> | <u>16,000</u> | Lahore and Rawalpindi | M. A. Khan |
| <u>Jang</u> | <u>200,000</u> | Karachi and Rawalpindi | Mir Khalil-ur-Rahman |

Radio

Radio Pakistan has a network of six main stations in the western wing -- in Karachi, Hyderabad, Lahore, Rawalpindi, Peshawar and Quetta. The high-power short-wave transmitters at Karachi help link the zonal stations for the relay of national programs and the centralized news service. There are 68 newscasts daily in 22 languages, including English, Urdu and Bengali. Ten external program services are also put out daily.

There may be about 1 million radio sets in Pakistan.

Television

Pakistan Television Corporation Ltd. has programs daily, except Monday, 1800-2200 hours. There are extended transmissions on Fridays and Saturdays. The main stations are in Islamabad-Rawalpindi, Karachi and Lahore.

Rebroadcast stations were planned for Lyallpur and Hyderabad.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: J. Burke Knapp

SUBJECT: Suspension of Disbursements to East Pakistan

DATE: December 30, 1971

This action was triggered by the receipt on December 27 of the letter of December 23 from the Pakistan Ambassador (copy attached).

As I told you on the telephone, it was clear that we should immediately suspend disbursements on projects in East Pakistan (except with respect to payments for which we were already legally obligated), if only because the Government of Pakistan might disclaim responsibility for the repayment for further amounts disbursed. The key question was whether we should simply accede to the Government's request, or whether we should formally invoke the clauses of our Loan and Credit Agreements entitling us to suspend the right of the Government of Pakistan and borrowers in East Pakistan to make withdrawals from the loan and credit accounts. We chose the latter alternative, among other reasons because only this action enabled us to require commercial banks with whom we have qualified reimbursement agreements to suspend further payments on letters of credit.

I attach the following further documents:

1. Our cable to the Government of Pakistan suspending their withdrawal rights with respect to IDA credits for East Pakistan (corresponding cables were sent to the Government of Pakistan suspending their withdrawal rights with respect to sub-projects in East Pakistan under certain IDA credits and Bank loans covering both East and West wings).
2. A sample of the cable sent to a number of commercial banks suspending payments under letters of credit on which we had a qualified obligation to reimburse.
3. A reply to the Pakistan Ambassador, attaching copies of the foregoing cables.
4. A copy of the notice of these actions which was issued to the Executive Directors on December 29. We did not feel that we could state that our action was at the request of the Government of Pakistan, but included the first sentence to show the context in which we were taking action. Cargill showed the Pakistan Ambassador and Osman Ali a draft of this announcement before it was issued, and they expressed no objection to the inclusion of the first sentence.

1/3
P. M.
return to
me before
2 to P. M.
J. B. K.

5. A copy of a further statement distributed to the Executive Directors today regarding the status of the affected loans and credits.

Attachments

cc: Messrs. Aldewereld
Broches
Cargill

JBKnapp:jk



Record Removal Notice

**File Title**

Travel Briefs, Pakistan 02

Barcode No.

1772617

Document Date

Dec 23, 1971

Document Type

Letter

Correspondents / Participants

To: Robert S. McNamara

From: Nawabzada A.M. Raza H.Q.A., H.K., S.Pk.

Subject / Title

Suspension of Disbursements to East Pakistan

Exception No(s).
 1
 2
 3
 4
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 8
 9
 10 A-C
 10 D
 Prerogative to Restrict
Reason for Removal

Information Provided by Member Countries or Third Parties in Confidence.

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by

Tonya Ceesay

Date

Apr 12, 2013

OUTGOING WIRE

TO: ECONOMIC

DATE: DECEMBER 29, 1971

ISLAMABAD

CLASS OF

SERVICE: IBF GOVT

COUNTRY: PAKISTAN

TEXT:

Cable No.: YOU ARE HEREBY NOTIFIED THAT IDA, IN THE LIGHT OF AMBASSADOR RAZA'S LETTER OF DECEMBER 23, 1971 HAS TODAY, PURSUANT TO SECTION 6.02 OF GENERAL CONDITIONS AND CORRESPONDING PROVISIONS IN CREDIT REGULATIONS, SUSPENDED THE RIGHT OF ISLAMIC REPUBLIC OF PAKISTAN TO MAKE FURTHER WITHDRAWALS FROM CREDIT ACCOUNTS NUMBERS 41, 42, 49, 53, 83, 87, 184, ^{192,} /208, 228, S-8 AND S-10 EXCEPT WITH RESPECT TO SUCH EXPENDITURES INCURRED FOR THE RESPECTIVE PROJECTS AS THE GOVERNMENT AND IDA SHALL AGREE MAY PROPERLY BE FINANCED OUT OF SUCH CREDITS STOP PLEASE ACKNOWLEDGE RECEIPT OF THIS CABLE

CARGILL

INDEVAS

NOT TO BE TRANSMITTED

AUTHORIZED BY:

NAME I.P.M. Cargill

DEPT. South Asia

SIGNATURE (SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE: MH:wiehen/PSella/lgl

CLEARANCES AND COPY DISTRIBUTION:

Cleared w/& cc: Messrs. Knapp & Broches
cc: Messrs. Gabriel, Rotberg, Chadenet
Sella, Wiehen, Diamond
Islamabad Office

bc: Ambassador Raza

For Use By Communications Section

ORIGINAL (File Copy)

(IMPORTANT: See Secretaries Guide for preparing form)

Checked for Dispatch: _____

TYPED COPY

BHFBANK (Berliner Handelsgesellschaft
Frankfurter Bank)

DECEMBER 29, 1971

FRANKFURT

TELEX (0611) 7181

GERMANY

REFERENCE TO OUR QUALIFIED AGREEMENTS TO REIMBURSE NOS. 48 AND 39 TO

REIMBURSE YOU FOR PAYMENTS MADE BY YOU UNDER YOUR LETTERSCREDIT

A55192 AND A54160 WE WISH TO INFORM YOU THAT IN VIEW OF PRESENT

EXTRAORDINARY SITUATION IN EAST PAKISTAN THE ASSOCIATION COMMA AFTER

CONSULTATION WITH PAKISTAN AUTHORITIES COMMA HAS SUSPENDED RIGHT OF .

ISLAMIC REPUBLIC OF PAKISTAN TO MAKE FURTHER WITHDRAWALS UNDER

CREDIT NO. 41 PAK WITH EFFECT FROM TODAY DECEMBER 29 1971 STOP

CONSEQUENTLY WE SHALL NOT BE OBLIGATED TO REIMBURSE YOU FOR PAYMENTS

MADE UNDER SAID LETTERSCREDIT AFTER TODAY STOP PLEASE ACKNOWLEDGE

RECEIPT OF THIS TELEX

INDEVAS

MHWIEHEN/cw

A.A. Casson
CONTROLLER'S

Cleared with Messrs. Broches & Sella
cc: Messrs. Wiehen & Grosvenor
File: 41 PAK - Credit Agreement
Contract Files:



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D. C. 20433, U.S.A.



OFFICE OF THE PRESIDENT

December 29, 1971

Nawabzada A.M. Raza,
H.Q.A., H.K. S.Pk.
Ambassador of Pakistan
Embassy of Pakistan
2315 Massachusetts Ave., N.W.
Washington, D.C. 20008

Dear Mr. Ambassador:

In response to your letter of December 23, 1971 which we received on December 27, we have today sent the attached cables to the Government of Pakistan, PICIC and 19 commercial banks. The action we have taken means that we are immediately suspending, for the time being and pending further consultation with your Government, any disbursements or further processing of contracts with respect to Bank loans and IDA credits extended for beneficiaries in East Pakistan (there are no IFC investments in that area), except with respect to certain payments under outstanding letters of credit against which the Bank or IDA have issued unqualified or qualified agreements to reimburse. With respect to these, the situation is as follows:

1. In the case of unqualified agreements to reimburse, we are obligated to disburse notwithstanding any suspension or cancellation. The amount outstanding on East Pakistan projects is about \$36,000; no new unqualified agreements have been issued for several months.
2. In the case of qualified agreements to reimburse (the amount outstanding on East Pakistan projects is about \$9 million), we are obligated to disburse with respect to any payments made by the commercial banks concerned before we have formally suspended disbursements. We have now cabled all commercial banks with which the Bank or IDA have entered into qualified agreements to reimburse and advised them of the suspension. We do not know the amount of payments already made by commercial banks under these letters of credit but expect to receive the final reimbursement requests shortly; at present we have in hand requests for reimbursements of \$31,400 in this category which will be paid in the next few days.

We desire to enter into consultations with the Government of Pakistan as soon as possible regarding the status of outstanding contracts and arrangements with suppliers, contractors and consultants with respect to work or services already performed.

Sincerely yours,

J. Burke Knapp
J. Burke Knapp
Vice-President

Attachments

Cleared w/& bc: Mr. Broches, Mr. Cargill (Attachments distributed separately)

- bc: Mr. McNamara (o/r) "
- Mr. Aldewereld "
- Mr. Gabriel "
- Mr. Rotberg "
- Mr. Sella "
- Mr. Votaw "
- Mr. Wiehen "

JBKnapp/MHWiehen/PSella/lgl

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

DECLASSIFIED

APR 04 2013

WBG ARCHIVES

CONFIDENTIAL

SecM71-601

FROM: The President

December 29, 1971

MEMORANDUM TO THE EXECUTIVE DIRECTORS

PAKISTAN

1. The Government of Pakistan has advised me that because of the present extraordinary situation it has become impossible for it to ensure the proper utilization of the proceeds of loans and credits for projects or sub-projects located in East Pakistan. Consequently, pursuant to the applicable loan and credit documents,

- (a) the Bank today suspended the right of the Pakistan Industrial Credit and Investment Corporation (PICIC) to make further withdrawals from Loan Accounts Nos. 509 and 590 PAK in respect of expenditures for sub-projects located in East Pakistan, and
- (b) the Association today suspended the right of the Islamic Republic of Pakistan to make further withdrawals
 - (i) from Credit Accounts Nos. 41, 42, 49, 53, 83, 87, 184, 192, 208, 228, S-8 and S-10 PAK and
 - (ii) from Credit Accounts Nos. 145, 157, 177 and 186-PAK in respect of expenditures for projects or parts thereof located in East Pakistan.

2. There are no IFC investments in East Pakistan.

Robert S. McNamara
By J. Burke Knapp

Distribution:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

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APR 04 2013

WBG ARCHIVES

SecM71-606

December 30, 1971

FROM: The Secretary

PAKISTAN

With reference to the President's Memorandum on Pakistan, dated December 29, 1971 (SecM71-601), attached for information is a statement prepared by the Controller's Department, showing the status of credits and loans in East Pakistan.

Distribution:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC

IBRD/IDA

EAST PAKISTAN - STATUS OF CREDITS AND LOANS AS OF DECEMBER 30, 1971

(\$ thousands)

| Project | Credit/Loan Number | Date Signed | Amounts Outstanding Net of Repayments and Cancellations | Disbursed | Undisbursed | Agreements to Reimburse Included in "Undisbursed" | |
|---|--------------------|-----------------------|--|---------------|----------------|--|--------------|
| | | | | | | Unqualified 1/ | Qualified 1/ |
| <u>IDA</u> | | | | | | | |
| Dacca Irrigation | 11 | 10/19/61 | 1,000 | 1,000 | - | - | - |
| Inland Ports | 16 | 11/22/61 | 1,986 | 1,986 | - | - | - |
| Brahmaputra Flood | 39 | 6/26/63 | 5,000 | 5,000 | - | - | - |
| Chandpur Irrigation | 40 | 7/26/63 | 5,250 | 5,250 | - | - | - |
| Dacca Water and Sewerage | 41 | 8/16/63 | 13,200 | 6,034 | 7,166 | - | 1,218 |
| Chittagong Water and Sewerage | 42 | 8/16/63 | 7,000 | 3,303 | 3,697 | 43 | - |
| East Pakistan Education | 49 | 3/25/64 | 4,500 | 3,694 | 806 | - | - |
| East Pakistan Highway | 53 | 6/11/64 | 22,500 | 3,627 | 18,873 | - | 1,796 |
| Pakistan Eastern Railway | 56 | 6/24/64 | 9,968 | 9,968 | - | - | - |
| Inland Water Transport | 65 | 8/26/64 | 5,206 | 5,206 | - | - | - |
| Foodgrain Storage | 83 | 2/10/66 | 19,200 | 18,449 | 751 | - | - |
| Second East Pakistan Education | 87 | 6/17/66 | 13,000 | 3,965 | 9,035 | - | 225 |
| Technical Assistance | 136 | 1/13/69 | 2,000 | 2,000 | - | - | - |
| Chandpur II Irrigation | 184 | 5/14/70 | 13,000 | 595 | 12,405 | - | 1,868 |
| East Pakistan Small Industries | 192 | 6/10/70 | 3,000 | 186 | 2,814 | - | - |
| East Pakistan Tubewells | 208 | 6/30/70 | 14,000 | 118 | 13,882 | - | - |
| East Pakistan Reconstruction | 228 | 1/13/71 | 25,000 | - | 25,000 | - | - |
| Irrigation Engineering | S08 | 12/15/69 | 800 | 741 | 59 | - | - |
| Irrigation Engineering | S10 | 6/10/70 | 2,400 | 1,338 | 1,062 | - | 76 |
| <u>Estimated East Pakistan Share of East/West Credits</u> | | | | | | | |
| Agricultural Development Bank | 76 | 6/30/65 | 10,000 | 10,000 | - | - | - |
| Commercial Road Vehicles | 81 | 1/13/66 | 4,000 | 4,000 | - | - | - |
| Industrial Imports | 98 | 12/23/66 | 2,000 | 2,000 | - | - | - |
| Second Agricultural Dev. Bank | 117 | 6/13/68 | 500 | 500 | - | - | - |
| Telecommunications | 145 | 3/ 6/69 | 9,000 | 3,790 | 5,210 | - | - |
| Third Agricultural Dev. Bank | 157 | 6/26/69 | 500 | - | 500 | - | - |
| Industrial Development Bank | 177 | 2/11/70 | 12,000 | 1,200 | 10,800 | - | 3,914 |
| Second Telecommunications | 186 | 5/22/70 | 4,000 | - | 4,000 | - | - |
| Total | | | 210,010 | 93,950 | 116,060 | 43 | 9,097 |
| <u>IBRD</u> | | | | | | | |
| Railways | 321 | 9/14/62 | 3,495 | 3,495 | - | - | - |
| <u>Estimated East Pakistan Share of East/West Loans</u> | | | | | | | |
| Railways | 241 | 11/30/59 | 2,200 | 2,200 | - | - | - |
| DFC (PICIC) | 1st thru 8th | 12/17/57 thru 3/21/69 | 51,000 | 49,371 | 1,629 | - | 233 |
| Total | | | 56,695 | 55,066 | 1,629 | - | 233 |

1/ Bank/IDA are obligated to complete disbursements on Unqualified Agreements to Reimburse, and on Qualified Agreements to Reimburse to the extent that payments were made by the banks under these agreements before December 30, 1971; the amounts remaining to be disbursed under the latter category are expected to be minor.

Controller's
12/30/71

Mr. McNamara



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Cable Address - INTBAFRAD

INTERNATIONAL DEVELOPMENT ASSOCIATION

Cable Address - INDEVAS



1818 H Street, N.W., Washington, D. C. 20433, U.S.A.

Area Code 202 • Telephone - EXecutive 3-6360

December 30, 1971

Nawabzada A.M. Raza,
H.Q.A., H.K. S.Pk.
Ambassador of Pakistan
Embassy of Pakistan
2315 Massachusetts Ave., N.W.
Washington, D.C. 20008

Dear Mr. Ambassador:

Thank you very much for the excellent lunch yesterday. Much of what we discussed is set forth in Mr. Knapp's letter of December 29 to you which I assume you received late yesterday afternoon. However, to elaborate on a few points, I enclose an Aide Memoire which you may find useful. If you should have any questions on Mr. Knapp's letter or on the Aide Memoire, please do not hesitate to call me.

With kind regards,

Yours sincerely,

I.P.M. Cargill
Director
South Asia Department

Enclosure

bc w/enclosure: Messrs. McNamara (o/r)
Knapp
Broches
Gabriel
Chadenet

MHWiehen/lgl

AIDE MEMOIRE

WORLD BANK AND IDA PROJECTS IN EAST PAKISTAN:

SUSPENSION OF DISBURSEMENTS

1. On December 29, 1971, the Bank and IDA, in the light of Ambassador Raza's letter of December 23, 1971, suspended the right of Pakistan to make further withdrawals from loan accounts and credit accounts in respect of expenditures for projects (or parts thereof or subprojects) located in East Pakistan. Except for certain payments under outstanding letters of credit against which the Bank or IDA have issued unqualified or qualified agreements to reimburse (these cases are explained in Mr. Knapp's letter to Ambassador Raza of December 29, 1971) the suspension effectively halts all disbursements on East Pakistan projects. However, the suspension notification to the Government of Pakistan (and to PICIC, the only other direct "borrower" affected by the suspension) makes provision for further withdrawals with respect to such expenditures incurred for the respective projects (or East Pakistan sub-projects or parts of projects) as the Government and the Bank/IDA shall agree may properly be financed out of such loans or credits.

2. The action taken by the Bank/IDA will affect principally three types of firms who have contractual arrangements with parties in Pakistan and whose supplies or services are financed out of Bank loans or IDA credits for projects (or parts of projects or subprojects) located in East Pakistan:

- (a) Consultants may have rendered services in the field or at their home offices (over periods which in some cases may be quite long) for which they have not been paid. Some time lag between the time the service is rendered and the payment for such service is normal, but complicated verification procedures required before payment can be made have in some cases been further delayed by the unsettled conditions in East Pakistan during the last year. Any termination of consultancy contracts which may be necessary in the circumstances could lead to additional claims to cover the cost of reassignment of personnel, termination payments to some staff, penalties, etc.
- (b) Contractors are likely to have similar problems as consultants, namely work performed which has not been paid yet, reassignment of personnel, termination costs, penalties, etc., but in addition they may not be able to remove equipment, machinery, etc. from East Pakistan, or only at high cost.
- (c) Manufacturers may have delivered goods to East Pakistan without having received payment, or they may have goods in various stages of manufacture which cannot be sold otherwise, or only at a loss, or factories may have been geared up for large orders, with no immediate alternative utilization.

These examples are given only for illustrative purposes; claims may of course result from many other contractual obligations as set forth in the individual contracts.

3. In addition to these three types of cases which may be affected by the suspension, there are the overseas commercial banks which have issued letters of credit, either irrevocable or revocable, to their clients to which the Bank/IDA have given only their qualified agreement to reimburse. These commercial banks will now be obliged to look to the advising banks in Pakistan for settlement of any claims they may have.

4. In order to minimize the adverse effects of this interruption of outstanding contracts, Pakistan might well wish to seek an equitable settlement with legitimate claimants. If such settlement is reached, the Bank/IDA would consider reimbursing the Government for such payments out of the respective loan and credit agreements; it is primarily for this eventuality that the provision referred to at the end of paragraph 1 of this Aide Memoire was included in the notification of suspension.

5. In addition, the Bank/IDA would be prepared to consider requests for the redirection to West Pakistan of goods shipped, or manufactured for shipment, to East Pakistan, under loans or credits for PICIC, IDBP, ADBP and T&T, provided these goods can be utilized in West Pakistan in accordance with the respective loan or credit documents.

South Asia Department
MHWiehen/lgl
December 30, 1971

Cleared w/Mr. Knapp, Mr. Broches

BANGLADESH

BANGLADESH

PROPOSED AGENDA FOR ACTION

Short Term

=====

A. Expatriate Advisors

1. These are chancy animals. In the past some have proved exceptionally qualified but the majority mediocre to poor. The odds are against getting good advisors here, on account of the depressing living conditions.
2. Beware of those who enthusiastically volunteer for service here. Some may be good. The majority however will prove to be crusading do-gooders who want to bring the gospel to the savages. They are the self-conceited hypocrites who believe their green academics are superior to the mellowed experience of the local people.
3. The most telling argument against expatriate advisors is that they tend to stifle the growth of local initiative and expertise. It is a common phenomenon that local officials will simply pass the buck to foreign advisors to avoid the burden of thinking. In the short-run this is probably more expedient. In the longer-run, however, it is better "to force a man to learn to fish than to serve him with a fish."
4. It is a mistake to assume that we know better than the Bengalis where they need expatriate advisors. They are instinctively judging in the context of the social/political/cultural milieu of Bangladesh; we are judging basically by Western standards. Even if we are correct in the short-term, they are likely to be more correct in the long.
5. The Government of Bangladesh is only several weeks old. It cannot be expected to come up immediately with specific proposals for expert assistance. We should not attempt to make the judgements for them, for we are only one of the many blind who are groping to define the elephant.
6. With the above in mind, I would suggest the following to guide us in the matter of expert advisory assistance :
 - a. Let us not rush the Government. A newly born nation must be given some time to collect and consolidate its thoughts.
 - b. Let us give what the Government wants and not what we suggest they want.
 - c. Let us look for quality not quantity.
 - d. Let us provide trainers not doers.

President has seen

B. Assessment of Relief and Reconstruction Needs

7. The ideal form of coordination is to channel work through one organization. The United Nations is organizing an assessment of relief and reconstruction needs, which is enough. All others, including ourselves, should (i) assist the U.N. study (ii) inform the UN of matters of particular interest for inclusion in the assessment (iii) resist the temptation to send assessment teams of their own and (iv) accept the findings of the U.N. study as a basis for action.

C. Economic Review

8. A longer term economic review mission to assess future prospects and the possible extent and areas of external assistance should be conducted by the Bank, probably in conjunction with the IMF. This should be timed to allow for the turbidity in the aftermath of the nine months of dislocation to have settled. This should not be before mid-1972 and preferably towards the end of the year.

D. Ongoing IBRD/IDA Financed Projects

9. The following nine projects financed by the IBRD/IDA were under execution in Bangladesh prior to separation :

| | <u>Unutilized Credit Balance</u> <u>As of Nov.30,1971</u> (\$ million) |
|--------------------------|--|
| Foodgrain Storage | 0.7 |
| Chandpur Irrigation (II) | 12.4 |
| Dacca WASA | 7.2 |
| Chittagong WASA | 3.8 |
| Dacca/Chittagong Highway | 19.4 |
| Education (49 & 87) | 10.0 |
| Small Industries | 2.8 |
| ADC Tubewells | 12.9 |
| Cyclone Reconstruction | <u>25.0</u> |
| Total : | <u>95.2</u> |

10. Of these the foodgrain storage, Dacca/Chittagong WASA (water supply) and education projects are in the final stages of physical execution. The Chandpur irrigation project is fairly advanced and the Dacca/Chittagong highway somewhat less so. On the ADC tubewell and small industries projects, the bulk of preparatory work has been completed but no or little actual work is in progress. For the cyclone reconstruction project, a good deal of preparatory work was done on several sub-projects but no agreements have been concluded.

11. In case the Government wishes to carry all or any of these projects to completion, I believe we should encourage it by offering to consider retroactive financing for funds expended. The academically inclined may argue that these projects should be shelved until a review of new investment priorities is conducted. I disagree. These projects were financed as high priority projects in the past and any reordering of priorities can only be marginal. A shelving and renewed appraisal of these projects can mean many months and probably many years of delay. The economic loss from such delays will likely far outweigh the conceptual benefit derived from a reordering of priorities.

E. Reconstruction Projects

12. A good deal of emergency rehabilitation has already been carried out by the Government with the assistance of the Indians and much of the communication system has been restored to use. However this is basically temporary patchwork which must be replaced by more permanent structures.

13. At the risk of sounding cynical, I believe the best way for us to assist in this work is to stay out of it. The record of the cyclone reconstruction work shows that local efforts are often quicker and more adapted to local conditions. To elaborate: under our cyclone project we sent "experts" (many of whom had no practical experience nor theoretical training in such matters) for about a week to review the requirements in fishing boats, shelters, etc. While these were working on impressive ratiocinations to clear our consciences, the local officials were quietly working their way through on their projects.

14. By the beginning of the political disturbances in March 1971, (i.e. 3.5 months after the cyclone) the Government had repaired more than 50% of the damaged embankments, repaired practically all of the usable water pumps, and supplied or financed 10,000 pairs of cattle, assisted by which the farmers managed to cultivate over 90% of their land for the last aman crop. The Government had organized a fishing boat building program under which some 1,500 boats were constructed by November 1971 as against 4,900 boats we had planned to construct under our sub-project.

15. During that period all we were able to accomplish was to write some appraisal reports on sub-projects and draft sub-project agreements for several projects. Because of the March dislocation, none saw the light of day. This is not intended as a criticism of the Bank's procedures. It is simply cited to point out that some projects are better carried out locally and that I consider the reconstruction work required now to be one of them.

Long Term

A. The Need for a Human Focus

16. Dacca today reminds me of Tokyo in its immediate post-war years. The shabby clothing, the worn-down busses with people hanging on from the outside, the numerous bicycle rickshaws, the small street vendors. Why such a vast difference in the pace of development between the two nations in the past quarter of a century?

17. Clearly the reasons are too numerous and complex for cohesive analysis or description. One aspect, however, strikes me acutely, whenever I visit Tokyo, as probably providing a clue to this difference: the dissemblance in the glimmer in the eyes of the two people. In Tokyo, the eye of the man in the street is an intense ball of determination; in Dacca, a glazed ball of emptiness. Multiply this by 100 million and 75 million people respectively and you have part of the explanation for the difference. Economic development must come importantly from human development; with a determined population, an economy can rise from scratch; without it, enormous amounts of capital investment may lie in waste.

18. Human development in Bangladesh is of central importance. This is a badly undernourished, largely illiterate (85%) people, living in an enervating climate with massive unemployment and under-employment. The low nutrition, high dysentery environment has produced infants with inadequate vitality and mental faculties who, grown up, now constitute the bulk of the adult population of Bangladesh.

19. Obviously this is a herculean task which can be undertaken only in decades if not centuries. Nevertheless, or rather on account of this, a sharper focus on human development is urgently called for in Bangladesh. From this point of view I would suggest the following :

- a. Family Planning: Population control is vital not only to keep down gross consumption but to raise the level of attention and nutrition given to each family member. In the past family planning programs, little effort has been directed to film motivation: by 1970 there were only 25 projectors in use, with two films both produced in Europe. To cope with the massive, illiterate population of Bangladesh, the use of the traditional family planning visitors and consultants is far too pedestrian an approach; an effort to reach the people en masse directly is needed.

A weekly, entertainment-oriented film showing program saturating the country on screen, TV or both, with a subtle motivational focus, may be an

effective way of achieving this goal. This medium appears to be particularly suited here because of the homogeneity, probably unequalled elsewhere, in language, culture and living conditions, of a huge population. Thus one motion picture produced for the local population can be used effectively for the entire country. The lack of entertainment otherwise will probably call forth good attendance.

- b. Mass film education. A program of the nature described above can concurrently be used for various other educational purposes fostering human development. Films on sanitation, baby care, nutrition and improved agricultural practices are some fields for which this would be desirable.
- c. A relaxation of the economic rate of return criterion in project appraisal. Rural electrification may not pay finance-wise but will undoubtedly pay in the long run in human development.
- d. An emphasis on dispersed, cottage industry development. A commonplace sight both in rural and urban areas of Bangladesh is a cluster of people squatting on the roadside doing nothing, as if in a coma. If this idle labour time can be harnessed for production, there will be an immense and immediate impact on the level of per capita income as well as on human development: the physical exertion and spiritual satisfaction accompanying meaningful work will in themselves generate a more industrious mentality.

B. Touch Up Investments

20. There is immense capital, probably of hundreds of millions of dollars, sunk in Bangladesh which is not producing because of the lack of the finishing touch. There are huge industrial plants, financed mostly by bilateral aid, such as the Ghorasal fertilizer plant, the Chittagong triple-super phosphate plant, the North Bengal paper mill, the Mymensingh jute mill, to name a few, which belong to this category. The Dacca/Aricha highway, financed originally by USAID, lays serenely incomplete, as do a number of power generating plants financed by bilateral aid. Some of the IBRD/IDA financed projects also belong to this category, such as the Santahar foodgrain silo, the overhead water tanks and tubewells in Dacca and Chittagong, and the Chandpur irrigation project.

21. Apart from the above many plants and equipment (trucks, ferries and barges included) are not or only partially operating because of lack of spare parts and repair. Again the capital investment lying

idle on this count can probably be valued in hundreds of millions of dollars.

22. To get the most mileage out of limited resources, probably one of the most effective investments would be to focus initially on these items.

C. Research

23. Of all the aid given in the past to Bangladesh, probably that which produced the most while providing the least is the development of the high-yielding rice variety at the Rice Research Institute at Joydevpur, financed by the Ford Foundation. The cultivation of IRRI 20 "miracle" rice, which was only 2,000 acres in 1969, spread to 100,000 acres in 1970 and to 550,000 acres in 1971. The yield has averaged about 40 maunds per acre as compared to the yield of 15 to 20 maunds per acre with the traditional variety.

24. Comparable research in jute strains, jute manufacturing processes, jute product development, and jute marketing, is missing. Bangladesh cannot sit back and say that jute is phasing out: it cannot afford that. An immediate and intensive research effort in jute may well determine the fate of Bangladesh for the next century.

D. Impact Loan

25. Bangladesh is an economy which lacks in absorptive capacity of major project type lending. This is not only because of its low implemental capacity but also because of its small industrial sector and rudimental market economy. Thus bilateral donors that desire to attain a certain level of aid commitment in a certain year have financed projects which were known full well to be uneconomical. The Japanese financed Chittagong steel mill was known to be too small to be economic and is now operating heavily in the red; the Japanese financed Chittagong fish harbour has a capacity for serving 66 trawlers against only 2 trawlers available to use it; power generating capacity, being an easy item for project aid, has now far outstripped demand; while Belgium has been proposing an addition of yet another 200 MW atomic power plant in North Bengal, which would be the first atomic power plant ever to be built by Belgians.

26. As long as aid is tied to projects, this drawback will persist, particularly if the procurement also is tied. A large and quick infusion of capital is possible only if aid were given for use in diffused projects such as miscellaneous industrial raw materials and spare parts, rural works, rural roads, rural electrification, cottage industry development or, perhaps most desirably, for capital budget support.

E. Agriculture and Water Action Program

27. The ravenous and costly action program for agriculture and water development prepared earlier by the Bank lies wistfully to be reawakened. Personally I don't think we should fully awaken the sleeping beauty, at any event just now, but should rather be carefully eclectic. Much contained in the program are studies on, or in preparation for, long term projects which can wait. It is decidedly undesirable to have hordes of consultants coming in now to restir the turbid aftermath of the struggle for independence.

S. Kuriyama
Dacca

Jan C. Gill

OFFICE MEMORANDUM

TO: Mr. McNamara

DATE: January 30, 1972

FROM: Mr. Kuriyama

SUBJECT: Proposed Appointments in Dacca

Departure Delhi at 7:30 a. m.

ETA Dacca 10:00 a. m.

10:15-10:45 Briefing by Kuriyama at his house

10:45-11:15 Meeting with Tony Hagen^(UN) at Kuriyama's house - LUNCH

* 11:30 Meeting with Prime Minister
(Wants to see him first)

1st met with Sec of Fin & Sec of BK
Lunch at Kuriyama's house with ~~Nural Islam and Rahman Sabhan~~

UNROD OFFICIALS

ETD Dacca 3:00 p. m.

For A.L. * At 1430 Chaudhury called with a message from the Foreign Minister saying that the meeting with the Sheik was at 1100. Suggest you check ~~WI~~ with the Chief of Protocol who will meet you. The message also said that the Sheik wished to decide who in his Government should attend Kuriyama's lunch.

1st Tajuddin

1430 Hagen & Salles (here)

Background

January 29, 1972
Bangladesh Bank, Dacca

Mr. A.N. Hamidullah

Age : 45, Munshiganj

Education : Calcutta University, B.A. Commerce, 1946
Industrial Finance Seminar.(Tokyo) 1963

Position Held : Present - Governor, Bangladesh Bank
1965 - Managing Director, Eastern Banking
Corporation
1961 - Head, East Pakistan Regional Office
Industrial Development Bank of Pakistan

lost his wife + only son in March

January 29, 1972
World Bank Office
Dacca

Background

Mr. Muhammad Matiul ISLAM

Age : 42

Education : Dacca University, B.A.Commerce, 1950
Harvard University, M.A.Public
Administration, 1957/58

Position Held : Present - Secretary, Ministry of
Finance

Early 1970 - Retired from Civil Service
and became Resident Director,
Pakistan National Oils, Ltd.

Between 1964/
69 Successively (all provincial) :
Secretary, Education
Secretary, Health, Labour &
Social Welfare
Secretary, Commerce and Indus-
tries in that order.

1963/64 - Secretary, Nat'l. Finance
Commission (under Mr.Mohamed
Shoaib as Chairman)

January 29, 1972
World Bank Office
Dacca

Background

Mr. Abdur Rab CHAUDHURY

Age : 38, Noakhali District

Education : Dacca University M.A. in Political Science 1955
LL.B. 1956
Oxford Balliol College 1958/59 P.P.E.
Fellow of E.D.I., World Bank Industrial Projects Course,
April/July 1969

Positions Held : Present - Coordinator, External Assistance for Relief
and Rehabilitation
July 71 - Chairman, Warehousing Corporation
June 70 - Coordinator, Accelerated Rice Production
Program
November 70-
February 71 - Relief Commissioner, Chittagong.

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. I.P.M. CARGILL

DATE: January 22, 1972

FROM: Michael H Wiehen *MHW.*SUBJECT: Visit to Bangladesh

DECLASSIFIED

APR 04 2013

WBG ARCHIVES

(A) INTRODUCTION:

1. Kuriyama and I arrived in Dacca on January 12. I left Dacca on January 20; Kuriyama is staying on.
2. We met with Secretaries, Chairmen and Administrators of all Government departments, agencies and organizations with whom we had project contacts in the past. We met also the Secretary General (successor of Chief Secretary), the Governor of the Bangladesh Bank, bankers, private businessmen, foreign diplomats and Indian authorities. We had very close contacts with the United Nations Relief Operations in Dacca (UNROD) who were most helpful to us. We made two field trips, one air inspection of North Bengal, looking at the railway situation between the Hardinge Bridge and Rangpur, and one helicopter flight to Chittagong with a visit to the foodgrain silo and the port.
3. The situation is so complex and so much in flux that any judgment at this time must be preliminary, restrained and qualitative rather than quantitative.

(B) THE GENERAL SCENE:

4. Before Sheikh Mujib's return to Dacca, the administration was largely unchanged except that each department was now under the direction of a political minister. Most of the Secretaries were C.S.P.s; some were Secretaries before in other departments, one had even retained his position (Food Secretary), but the majority were people who had fled from the country after March 25. There was obvious rivalry and disagreement among the returnees and farspread distrust of those who had remained behind. The administration was functioning in a way it was headless, and often pre-occupied with subjects of secondary importance. Many of my close contacts in Bangladesh fully confirmed the apprehension felt abroad about the long term viability of that government. but
5. Within very few days after his return, Sheikh Mujib took complete and effective charge. He has started a major re-organization of the administration. One objective appears to be the replacement of C.S.P. generalists by specialists, professionals (most eminent example is the appointment of Nurul Islam as Deputy Chairman of the Planning Commission), although a number of political appointees have still been retained. Another objective of the re-organization is stream-lining, e.g. the contemplated merger of industrial financing institutions, the re-organization of agricultural agencies etc. Also, Mujib seems able to overcome both rivalries among returnees and distrust of those who remained. Finally, Mujib at the moment seems accessible to everybody; this should facilitate

dealings with the administration, because every civil servant at the moment feels subject to constant control by the Prime Minister. This may change but it is very obvious at present, and with very positive results.

6. Although the Central Secretariat is now fully in place, it is still in a state of great flux. Almost everyday more changes are announced, and quite a few more are expected to come when the Bengalis now serving in West Pakistan, especially in Islamabad, return home, which may happen in the next 2 or 3 months. Information on the status of the administration at District and Thana levels is very spotty. Apparently most District Commissioners are new. The major reason for this lack of information is the complete breakdown of the telecommunications system which is only slowly being restored.

7. On the political side, Mujib has confirmed the decision of the Mujibnagar group to appoint only Awami League members of the National Assembly as ministers (he now has 15 ministers). He has replied to pleas for a multi-party Government by stating that the by-elections necessary to fill a number of vacant seats can be contested by any party. There is some distinct dis-appointment among senior leaders of the other parties. Apparently Mujib could have been talked into a multi-party Government but other Awami League officials were opposed very strongly and Mujib accepted their view.

8. A draft constitution is being prepared by the Awami League. The draft will be presented to the Constituent Assembly which is expected to be convened in the 2nd half of February and which will comprise all those who were elected in December, 1970 to the National or Provincial Assemblies. Even before the new constitution has been adopted, Sheikh Mujib has announced sweeping changes in the entire system of local bodies at the village and town levels. Although no details are known yet, it seems that in future all these bodies are to be elected on the basis of universal adult franchise.

9. With regard to the security situation in Bangladesh, there has been great chaos, and a lot of tension still prevails because a number of Bengali guerilla groups have initially refused to handover their arms. There was great rivalry among those groups, and the fact that they are still armed should be a major reason why the Indian Army's presence is generally appreciated. Although some of these groups are still said to be harassing non-Bengalis, and some looting, kidnapping and robbery is still taking place, there have been no reports of unlawful activities on a major scale during the last week or two. On January 17, Sheikh Mujib ordered all these men to turn in their arms and return to a peaceful life. Most observers believe that a sizeable number of weapons will be hidden for the time being, but there is no doubt that the incidents of looting etc. have diminished substantially after Mujib's appeal. The security situation clearly is improving rapidly, and it is said that even more and more non-Bengalis are venturing out into streets and back to their old jobs.

10. Overall, Sheikh Mujib at the moment has very impressive control of the entire society, and the feeling of direction, purpose and concerted effort for the good of the country is evident everywhere.

(C) THE ECONOMY:

✓ 11. I do not think anybody at the present has a complete picture of the Bangladesh economy. Everybody is overwhelmed by the immediate problems in his sphere of influence, and nobody seems able yet to pull all the strings together and devise a coordinated approach. With the appointment of Nurul Islam as head of the Planning Commission, which was to become effective on January 20, the medium and long term aspects are in the best possible hands and should be handled soon in a methodical manner. The other members of the Planning Commission have not been announced yet, but among the names that have been rumoured is Rahman Sobhan; as for the staff, Nurul Islam is trying to get a number of his former PIDE economists to join him. However, the short term problems are almost overwhelming.

I. RELIEF & REHABILITATION:

✓ 12. The most urgent task of the Government is to enable 10 million refugees to return from India to Bangladesh. It is clear that Bangladesh authorities have given firm undertakings to India that the task would be completed in record time, perhaps by the end of February. From information available in Dacca, there is no problem in getting the refugees to move back; ✓ in fact many refugees do not wait for official arrangements but return on their own, as they have fled. As of January 20, the official number of ✓ refugees returned had already passed the 4 million mark. The problem really begins when the refugees reach their "home" areas. Most are given two weeks' ✓ ration and a small amount in cash. But once they return, many find their homes destroyed or taken by others. They need shelter materials, food, medicine ✓ and some cash to get them going on their own - to buy agricultural inputs, raw materials for home industry etc. In some border areas, there is very great ✓ destruction, and it is not only that houses and farms have been destroyed but also all traditional trading links have been interrupted. The task is made ✓ much more difficult by the very great dislocation of people within Bangladesh. ✓ The total number of destitute people (including refugees) is being estimated by the Government at up to 30 million. This number may be exaggerated but there is no doubt that the task is stupendous.

13. Charged with the task of providing relief and rehabilitation is a special department with a primarily coordinating role. This department is staffed with young, enthusiastic, but not very experienced people. They have overreacted to the urgent need by stipulating requirements which cannot possibly be met. E.g. while at present the entire port handling capacity of Bangladesh is 70,000 tons per month, soon with the arrival of 9 minibulkers to go up to 190,000 tons, and with the reopening of Chalna port to about 250,000 tons per month, the "most important and urgent requirements" were set at 18 million tons (which at 250,000 tons per month will take 6 years to move); this 18 million tons includes 10 million tons of cement, which nobody can explain. But these officials are making a valiant effort to deal with the problems in a complex manner, and their performance seems to improve fast.

✓ 14. The major problem of bringing relief to the people is transportation. The internal transport system has been very substantially disrupted. Transport through India is being reopened, but Calcutta port is a major problem of its own.

15. The United Nations, the International Committee of the Red Cross (ICRC) and innumerable voluntary agencies have settled down in Dacca and are anxious to help but do not seem as yet as effective as necessary. First, there seems to be little coordination among the donor agencies; no agency knows what the others are doing. Second, there still appears to be some disagreement between the Government and the agencies about their role, which is only superficially patched over. E.g., the ICRC was told at one time that they should hand over all drugs, blankets and food to the Government at port of entry; the ICRC instead wishes to handle the distribution itself and seems to have won its point at the moment; the ICRC expects to be "operational" soon with 3 or 4 helicopters, 2 or 3 planes and 250 to 300 people to distribute to the needy people directly 20,000 tons of foodgrains, blankets and medicine; the ICRC also has several teams of doctors and nurses in Bangladesh. Other voluntary agencies also have several planes flying all over Bangladesh, but the UN team does not know where they fly and what they transport. The lack of rapport is evidenced by the fact that a UN plane on which I was a guest flew half empty to Rangpur despite a shortage of drugs in Rangpur and a two hour effort by senior U.N. staff to get some medicine released from the Government stocks. The U.N. so far has delivered trucks and 10 minibulkers (of which one is still under repair) but no foodgrains yet. The trucks are operated by the Government, the U.N. handles maintenance. The first UN foodgrains are expected to arrive soon from Singapore where they were stored during the war. The UN role in Bangladesh is not yet completely clear but apparently UNROD sees its main function in helping the Government move foodgrains and other essential goods within the Government's own system.

✓ 16. During my last two days in Dacca a change in attitude started to take place, apparently triggered off by a meeting Toni Hagen, the acting UNROD Chief, had with Sheikh Mujib. The Government quickly appointed a capable man as the sole coordinator for all outside help, and the UNROD team on its side took steps to coordinate at least the flight activities of all voluntary agencies, and may try to go beyond that. I had the impression that UNROD is considered by the Government to be the organization best able to play a coordinating role. Although the "direct distribution system" favoured by the ICRC may in isolated cases reach destitute people whom the Government might have neglected, there is no doubt that the Government distribution system cannot - and should not - be duplicated, and the UNROD team rightly has taken the position that they are in Bangladesh to help the Government to reach all needy people through the normal channels.

17. The UNROD team, encouraged by the most recent positive reaction of the Government, is now beginning to think of other fields in which they might be of assistance to the Government. They speak, still rather vaguely, of sponsoring a "damage assessment" team which should start in the field in early February. I had extensive discussions with the local leaders of the team, with

Pierre Sales from the New York office and, briefly, with Paul-Marc Henry at the Airport (when he arrived and I departed), and will come back to this point further below.

II. BASIC NECESSITIES:

18. Food, shelter materials and medicines are the three most important items to be distributed.

✓ 19. Food: Due to a very good aman crop (which has been provisionally estimated at 5.6 million tons) village people who stayed in their place and town people who have retained their belongings appear to be rather well off: rice is available in sufficient quantities and at moderate prices (average Rs. 45 per maund). The situation is substantially less satisfactory for those people who have to rely on food supplies from the Government - the returnees and other destitute people. Apparently some pockets of severe food shortage already exist among those groups, and more are expected to develop soon unless help can be brought quickly. Most of the returning refugees are given by India a two weeks' ration of food, and although many of them are said to sell their ration in India at a substantially higher price before returning (Rs. 80 per maund), the impact of the returnees on the local government stocks is only beginning to be felt. However, demand on the Government distribution system will accelerate very steeply. Information on the food situation is becoming available only very slowly, especially from the more remote areas. It comes mostly as small teams of UNROD, ICRC and voluntary agency personnel return from field trips to Dacca. The destruction of the telecommunications network has interrupted all normal lines of communication. Therefore information on the stock position in the Government supply system is also quite incomplete.

20. Of the four IDA financed foodgrain silos, which should play a vital function in the distribution network, only the one at Narayanganj is in operation, but its stock is almost depleted. The silo in Santahar requires some work on the handling equipment before it can be used. The Chittagong silo at present holds about 80,000 tons of wheat but operations were stopped in November and have not been resumed. The jetty for unloading oceangoing vessels has been damaged, and repair seems to be difficult and time-consuming. The jetty for loading coasters is operational but so far no coasters have arrived, and what little foodgrain is presently shipped out of Chittagong is in bags from the general cargo port area. The silo at Ashuganj, already damaged last March/April, has been hit by more rockets (it is located right at the strategic Meghna river railway bridge) and requires several months for repair. The network of some 850 Central and Local Supply Depots must have suffered some damage but a survey has not been completed yet. Some stocks are said to have been destroyed, others taken to India, but all this is unquantified.

✓ 21. If the food shortage at present is limited, there is no doubt that major efforts will have to be made to import and distribute large amounts of

foodgrains to supply a large part of the population as the aman rice is being used up. These efforts will be mainly the Government's but will need to be heavily supported by UNROD and ICRC.

✓ 22. As for shelter materials, the problem is much the same: corrugated iron sheets and polythene sheets need to be imported and brought up - country from Chittagong and Chalna. They should be fully distributed by the time the rains begin in May or June.

23. Other basic necessities like kerosene or sugar are becoming very scarce and prices are rising at an alarming rate. Some supplies are now being brought in from India.

III. COMMUNICATIONS:

✓ 24. This sector of the economy probably has suffered the most severe physical damage. It has been the target of several groups since last March. As a result the communications network today is functioning at a very low level and massive outside assistance is needed to bring it back to pre-March 1971 conditions.

25. Ports: 1/ Both Chittagong port and Chalna anchorage have been declared "open" as of January 12; the first foreign vessel was expected to arrive on January 18, another a few days later. The port channels are lined with sunken ships and are apparently not very clearly marked. In Chalna anchorage, four vessels are sunk and although they do not interfere with the approach of ocean going ships they do reduce the handling capacity by about one-third. In Chittagong there are several ships submerged in the port itself, one just off the main jetty of the foodgrain silo and another very close to one of the main general cargo jetties. The unloading facilities are largely un-damaged but about 20 percent of covered storage space has been destroyed. UNROD arranged for an inspection flight of two Lloyds surveyors over the port and its approach and expect Lloyds to declare Chittagong and Chalna "usable" by international shipping lines. To remove the more disturbing wrecks in Chittagong, a heavy floating crane is being brought in by UNROD from Singapore. The Indian Navy is also assisting in the clearance of the port and approach channels and has already removed all mines with the help of charts handed over by the Pakistani Navy.

✓ 26. However, even when foreign ships can dock and unload, the main problem, as last year, will be the removal of goods from Chittagong up country; the storage sheds are full of goods, and only very few country boats and coasters had come in for loading as of January 17. The Chief Traffic Engineer estimated that the present level of discharge from the port by all modes combined is only about 30-40,000 tons per month. One factor which is almost certain to affect port operations adversely is the high rate of non-Bengalis in the senior positions of the Port Trust prior to the war. Many of them are now being replaced by people from lower ranks who will need some time before they can operate as effectively as their predecessors.

27. Railways: In early April, a major railway bridge over the river Feni on the main line from Chittagong to Dacca was destroyed, with 5 spans in the water and 3 pylons gone. In the last days of the war several other major railway bridges (Hardinge, Meghna at Ashuganj, Tista at Rangpur and Mymensingh) were so heavily damaged that both materials (girders) and equipment (crane etc.) for repair have to be brought in from outside the country. In each case, one or two full spans were dropped in the water; from the air, the pylons did not seem to have suffered structural damage. Furthermore, a few wagon ferries which provided links across the major rivers have been sunk or destroyed. As a result of all this damage, the railway system is badly truncated. Some of the rolling stock was also destroyed or damaged, but some rolling stock, left intact, is now functioning in each of the severed parts of the system. However, the railway telecommunications network is completely out of order and therefore traffic is "on sight". The few trains I could see from the air seemed to have as many passengers on the roof tops and outside as inside. The most important railway link from Chittagong to the north now "is in operation to Chandpur" - with transshipment necessary along the way across two damaged bridges and about 3 miles over land in between. Most of the other repairs already made to hundreds of bridges and culverts are provisional, they force speed reductions and require more permanent repair urgently.

28. Indian Army engineers are apparently most helpful and active in the repair of the railway system. The latest word on January 19 was that the Indian Railway which already has reopened 5 or 6 links with the Bangladesh system from West Bengal and Assam (which were cut in 1965) has undertaken to repair all major railway bridges except for the Feni bridge which the Bangladesh Railway seems capable of handling itself. The original estimate to restore all bridge connections is 4 months but I consider this rather optimistic. Apparently India has also requested a list of urgently needed signalling equipment and may help in this area too.

29. For immediate relief UNROD is likely to bring in 3 major ferries - at the Meghna and Hardinge bridges and across the Brahmaputra. The Railways also had a high proportion of non-Bengalis in senior positions and will face similar problems as Chittagong Port Trust.

30. Roads: The highway system is equally badly damaged. More than 400 bridges are said to have been blown up, plus many more culverts. However, all of them seem to have been provisionally made useable, partly with the help of Indian/engineers, or circumvented. Also, many trucks and car ferries have been destroyed or lost. Although highway traffic can again reach every part of the country, it is very slow on most roads and weight restrictions further limit capacity substantially. About 15 to 20 percent of the provisional crossings need to be made more permanent or raised before the monsoon if they are to remain useable. The poor condition of the highway system is compounded by the fact that the available truck capacity now is far less than half its former size - a large number of trucks either have been completely destroyed or are un-useable because of lack of spareparts. The import of low to medium /Army

capacity trucks is a matter of highest priority; this is fully appreciated by UNROD.

✓ 31. Waterways: The shipping fleet has suffered heavy losses, and although many large countryboats which had disappeared last year have surfaced again, the total internal shipping capacity is severely reduced. Many ships have been sunk and others are inoperational due to lack of spareparts. Of the 480 launches of IWTA alone, 20 percent have been lost and 30 percent are inoperational. In addition to the loss of vessels, surveying of the ever shifting rivers has been interrupted, a vital link of the Decca surveyor chain has been lost, a lot of navigational aids have been removed and dredging has been neglected. However, the U.N. is now bringing back its minibulkers and will also provide some tugs and barges. This should go a long way towards removing this major bottleneck.

32. Air: All former PIA planes have disappeared and there is at present no scheduled internal air service. The Government is negotiating with India for 2 Fokker Friendships to open at least some service. However, all air strips were badly damaged and to-date only 4 or 5 have been repaired provisionally; also all airport communications systems were destroyed.

✓ 33. Telecommunications: The telephone and telegraph system has been very severely damaged. Many stations with all equipment were destroyed, many land lines were interrupted, and a large number of telephone instruments have been broken. Today the only normal connections are between Decca and a few major towns; other connections are being put in rapidly on a makeshift basis. Some voluntary agencies are donating and installing radio equipment to establish at least one-channel links with places like Dinajpur, Thakurgaon etc. But it is clear that it will take a long time and heavy investment to restore the internal telecommunications system fully. Its lack is heavily felt everywhere; the Government is only now reestablishing links with its divisional and subdivisional offices, and it is a miracle that the economy and relief efforts have started to function at all.

IV. AGRICULTURE:

✓ 34. Foodgrains: In view of the subsistence character of most of agriculture in the country, activities, where they have been interrupted, are likely to be resumed without any delay. Damage to physical plant in this sector does not appear very great - some pumps damaged, power lines interrupted, transport lost. Unfortunately, there has been a very great loss of plow cattle which were mostly eaten. In some areas the loss is said to be as high as 95 percent. The main factor in restoring agriculture will be the replacement of the cattle population and an adequate supply of inputs.

✓ 35. Seeds: Stocks on hand are sufficient for the boro crop only, which is sown in January/February and harvested in May. More seeds need to be imported soon for the next crop.

✓ 36. Fertilizer: Stocks are very low. While TSP and Potash are sufficient at least for the coming boro crop, Bangladesh needs 100,000 tons of urea almost immediately. The Fenchuganj fertilizer plant is producing at about 75 percent of capacity (80,000 tons instead of 110,000 tons per year) and needs spare parts to increase output; the transport of the finished product to the areas of consumption also still presents a problem. Ghorasal, the new Japanese aided urea plant, with an annual capacity of 350,000 tons, had mechanical problems pre-March 1971 and needs repairs which will take 3 - 4 months after the Japanese engineers return. The Government of Japan is unwilling to finance these works. The company appears willing to return if they get paid, and the Government has now requested UNROD to finance these works, and this request, strongly supported by us, is now under consideration by UNROD. The cost estimate is about \$ 0.5 million.

37. The first ship with fertilizer from India was expected to reach Chittagong on January 18 and some Indian fertilizer is also arriving in North Bengal by rail. If India continues these deliveries, then the requirements for the boro crop may yet be met.

38. Pesticides: Stocks on hand are sufficient for the boro crop only.

39. Pumps: Of the 25,000 low lift pumps owned by the Government (ADC), very few were returned for repairs last fall but the ADC expects the majority to be in working order. The supply of fuel for these pumps will be another priority demand on the transport system.

40. Research: On the positive side, the Rice Research Institute in Dacca - Joydevpur, which has been supported by the Ford Foundation, has remained fully intact (except for some loss of transport) and all experiments have been saved; only some of the field testing through contract farmers was interrupted. The Ford Foundation is already considering to send Dr. Rufus Walker, an eminent plant scientist, back to Dacca.

Cash Crops:

41. Jute: The 1971 jute crop is provisionally estimated at 4.2 million bales (1970: 6.6). The reasons for this shortfall are entirely the disturbances and the war: improper cultivation and retting, lack of inputs, and some destruction of grown plant. Of the crop, perhaps 0.5 million bales has found its way to India. The destruction of rawjute has been negligible.

✓ 42. Because of a large carry-over from the previous year, the stocks available for export are very large, including some 150,000 bales in Chalna ready for shipment. International buyers have converged on Dacca, hungry for jute. Bangladesh has declared all earlier sales contracts null and void, causing some confusion, but the Government is renewing them rather quickly on the same terms as before. Several chartered ships and one or two ships from India are expected at Chalna "soon" (as soon as Lloyds have declared the port open, allowing insurance coverage to be obtained). The conference

lines are also expected to start calling for jute with adhoc agreements before the general conference agreement with Bangladesh has been completed. Optimism about exports is running high. However, there are clear indications that the interruption of jute supply during the last year has further accelerated the shift of the European jute industry to synthetic fibers, and the Government will have to make a major effort to retain the market, or to open new markets. This will require early attention.

✓ 43. Tea: In the tea industry, the situation is rather grim. The production during the last season (which ended in December) was about one-third of a normal year (22 million lbs. against 65 to 70 million lbs.). But sales and dispatches were even less, and there are large stocks of made tea in the gardens, in Chittagong and enroute between the two. More than 80 percent of total production (which is of fairly low, bulk quality) used to be shipped to West Pakistan, and it is unlikely that that market will open up again, at least not at the old prices which were substantially above the world market prices. Bangladesh may be able to gain some markets in East Europe under barter deals, but the industry expects that they will have to sell at the open London market at prices very much less than they have been used to. The big planters - mostly the Sterling companies - may get by although with very small profits; at the moment their production cost is slightly less than the price they expect to receive, and some further rationalization may be possible. Smaller - mostly Bengali owned - gardens now produce at a cost 50 percent or more above the expected price; some of them have already arranged for Sterling companies to run their gardens but some gardens may eventually be abandoned.

44. While the supervisory staff was largely non-Bengali (and to a large degree is absent now), the very substantial labour force (120,000) seems to be returning fully, wanting food and money. As a result food in the area is quite short and the tea companies are all hard up for cash, not having sold any made tea for some time. Of the 120 factories, 40 were damaged, 30 of them seriously. Some were blown up, in others only the prime movers were destroyed, about half of the transport equipment has gone, and serious fuel shortage is curtailing manufacturing where the machinery is intact. However, supplies of food and fuel have started to come in from Assam, and the situation may improve shortly.

45. Since the tea industry is potentially able to earn some foreign exchange and employs many people, the Government tries to help with overdraft facilities, long term loans etc., though still on a small scale. However, the Sterling gardens which account for the bulk of production are very unlikely to invest much new money in their gardens in view of the very uncertain business prospects, plus the threat of nationalization. Owners of 23 gardens (of 150) are "absent" and their gardens are being operated by the Government's Tea Board.

46. Sugar: The sugarcane crop has been badly hurt. Most of the sugarcane area is in the Northeast of Bangladesh where cultivation was often very difficult due to disturbances and the war, some of the grown plant has been

destroyed, and the crushing season coincided with the war. As a result whatever cane had survived was not harvested and processed properly. Overall yield may be as low as 20-25 percent of a normal year.

V. UTILITIES:

✓ 47. Power: Damage to the power system seems to be limited. At the major Dacca generating station (Siddirganj), the auxiliaries and cooling system were damaged but the plant was run without cooling. Several substations were destroyed and many transmission towers toppled. However, all necessary lines are back in operation (only the Chittagong - Comilla transmission line is still cut at Feni), and power supply is being maintained, although with interruptions. The major saving factor of course is that the demand, especially from industrial consumers, has dropped very substantially. More than one-third of the officers in the power wing of WAPDA were non-Bengalis and many have had to be replaced. However, this fact is not expected to have too adverse consequences, because demand on the power system will increase only gradually.

48. Gas: The major natural gas pipeline from the Titas field to the Ghorasal fertilizer factory and to Dacca has been disrupted where it crosses the Meghna river over the railway bridge at Ashuganj. A provisional "suspension" pipeline is being installed and expected in operation by end-January. All other gas installations are undamaged.

49. Water Supply: The water supply systems in Dacca and Chittagong are completely undamaged and supply has been fully maintained. The only damage was to transport.

VI. INDUSTRY:

✓ 50. Physical damage to industrial installations is still being assessed but does not appear to be of major proportions. A tentative cost estimate for permanent repair of all plants owned by the Bangladesh Industrial Development Corporation (and this includes the steel mill, refinery, two fertilizer plants, cement factory and many jute and sugar mills) is not higher than Rs. 130 million (about \$ 18 million equivalent).

✓ 51. The production during the last 10 months has been drastically curtailed, though, due to a number of factors: Transport problems made it difficult, in many cases impossible, to deliver raw materials to the plants, and to take off the manufactured products. Security problems severely affected the presence of labour and management. Power fluctuations and interruptions caused damage to motors (which due to lack of spare parts could not be repaired), and in general did not allow constant operation. Although it is difficult to determine how many factories have actually resumed production, and how many are just getting ready, there is no doubt that overall industrial activity is still at an extremely low level. Production in most

plants is expected to improve as transport, power and management problems are being overcome. However, there is some apprehension that labour problems may arise. In any case, it will take a long time for most plants before they will make a profit again. Many companies stopped long ago to service debt, and the financial institutions are not very confident as to when they will begin to receive service payments. There is no clear idea yet as to how to handle overdue payments, but some form of rescheduling will be inevitable.

52. A fair number of the major private companies (mostly jute mills) were owned by West Pakistani entrepreneurs. The Government has announced the takeover of management and property of all these companies; it has appointed administrators, often from within the management of the companies; e.g. the Administrator of the Adamjee Group of Industries is a former senior executive with 10 years service in the company. In some other important cases the choice is considered poor and the company may run into serious problems. For all companies so taken over, a problem arises from the fact that nothing has been announced about the handling of liabilities, and the financial institutions are understandably hesitant to make any further advances to these companies.

53. In the jute industry specifically, only little damage to installations has been reported (except that one mill has been largely destroyed), but the production during the last 10 months has been very un-satisfactory and continues to be so. The godowns are full with about 80,000 tons of jute goods, and 35,000 tons more are in transit somewhere in Bangladesh. In the absence of sales and exports, the cash position of the industry is desperate; it has been estimated that Rs. 500 million is needed to keep the industry going for the next few months. Transport and communication problems, power failures, voltage fluctuations, labour and management problems (during March-December, many Bengalis left; now most of the non-Bengalis are gone), general security problems - all affected the industry badly. Of the 68 private jute mills, 32, accounting for 75 percent of the loomage, have been taken over by the Government. It remains to be seen whether the Administrators will be able to run the mills effectively as most of the other problems are being overcome.

VII. EDUCATION:

54. Buildings and equipment have suffered great damage because they were used by both armies. In fact, assessment of damage is still not possible because many colleges, polytechnics etc. are being occupied by the Indian Army. Primary and secondary schools are open though with small attendance. All higher institutions are closed and nobody is ready to predict when they will reopen.

VIII. FAMILY PLANNING:

✓ 55. The family planning program appears to be in serious trouble. It was administered directly by the Central Government and although one new Minister has been put in charge (in addition to a few other subjects) there seems to be nobody to plead the case for family planning. The money available to the program is running short, and the program is in danger of faltering unless Sheikh Mujib can be interested in it. The Ford Foundation has assessed the situation and appears ready to continue its support if the program remains alive.

IX. FINANCIAL INSTITUTIONS:

56. The Bangladesh Bank (Central Bank) has as its new Governor (since January 17) a former commercial banker, but most of the experienced staff of the former Dacca Branch of the State Bank have remained. At present the Pakistani rupee, devalued to 7.25 (at par with the Indian rupee) continues to be used but will be replaced very shortly by a new currency of which the main unit, one Takka, will again be at par with the Indian rupee. The Bangladesh Bank has at present only Rs. 20 million equivalent in foreign exchange but expects to earn comfortable amounts very soon when the jute exports begin.

57. The Governor of the Bangladesh Bank requested information on requirements and procedures for membership in the IMF, and Kuriyama was able to supply some documents to him. The Governor may soon ask for a possible visit of an IMF staff member, and this could perhaps be arranged under the UNROD umbrella.

58. Various aspects of monetary and fiscal policy are being studied; it is obvious that in this field little if any preparatory work had been done, and it will take several weeks before a coherent policy develops. Some of these decisions must be taken very soon because the Government seems to be almost completely out of cash, and the prospects for receipts are dim. For the moment, the Bangladesh Bank and the Government operate with a large number of ad hoc decisions. For example, most earlier credit ceilings have been removed to facilitate the payment of industrial wages for a month or two when earnings are expected to start coming in. In respect of foreign exchange transactions, the Bangladesh Bank seems to lean fairly heavily on National and Grindlays Bank, receiving technical assistance as well as facilities.

59. As for the other financial institutions, they all continue to function more or less as before, except that all those who had their headquarters in West Pakistan have been taken over by the Government and are now headed by Administrators; the latter can no longer handle foreign exchange transactions. The future of the private commercial banks is somewhat in doubt; nationalization is considered a distinct possibility,

but it may not come for a while. For the moment the commercial banks are re-establishing all their branches and slowly resume transactions.

60. With regard to the industrial finance companies (formerly PICIC, IDBP and EPSIC) there seems a good chance that they will be reorganized and merged into one or two institutions. All report very poor debt service and low cash position. Of BICIC's (formerly PICIC) client companies, a substantial number is now operating under Government administrators. The rate is much less for IDBB, (IDBP), and there are none for BSIC (EPSIC).

61. BICIC: The former Manager for East Pakistan, Mr. Rashid, is the Administrator. He reports that several IBRD financed sub-projects have suffered damage. However, assessment is still at an early stage. He has a peculiar problem in that he knows only the total amount owed by his clients while the detailed information as to payment dates, principal and interest, currencies etc. had been maintained in Karachi and is not available to him now.

62. IDBB: The former Deputy General Manager - East Pakistan has been appointed Administrator. He has sent 20 teams across the country to assess the damage; early reports indicate that there was no major damage to the fixed assets. IDBB's staff was heavily West Pakistani; many have already left, taking leave in October or November and not returning; many others are ready to go. IDBB in its present form may soon be depleted of good staff.

63. BSIC: The Chairman and the Director of Operations have remained, and the staff is intact. So far very little damage to BSIC sponsored units has been reported.

64. ADBB (ADBP): The former Manager for East Pakistan is now the Administrator. All field offices are intact, except that they lost all transport. ADBB is very short of cash and is just beginning to collect on outstanding loans (Rs. 350 million) but is not very hopeful. It has received Rs. 20 million from the Government for some crash assistance to the tea industry and for cultivators to buy bullocks.

(D) THE ROLE OF INDIA:

65. India's presence in Bangladesh now has a very low profile. The Army has shown very good discipline and is keeping in the background as much as possible. At the beginning the Army helped - though often seemingly reluctantly - to maintain or restore "law and order" but this function is said to have ended and has been taken over fully by the local police, supported by the former East Pakistan Rifles. In the first few days after the surrender of Dacca, the Army - and some traders from Calcutta -

seem to have bought the Dacca shops empty of all kinds of goods, but now the Indian Army in Dacca is largely invisible.

66. One Indian Major-General, who is in charge of liaison with civil authorities, has coordinated the assistance in rehabilitation given by the Army to Bangladesh. Apart from some work still being done by the Army engineers and the Signal Corps, mostly helping to restore the railway, highway and telecommunications systems, he considers this phase of their presence completed. All other assistance given by India is being handled between the regular officials in the two Governments.

67. As for economic assistance, negotiations are going on on many levels. Many items urgently needed in Bangladesh are being supplied from India (like fuel, fertilizer, cement, steel, chemicals, drugs, medicines and sugar) and financed out of an initial grant of Indian Rupees 250 million to cover the next few months. I believe that about Rs. 60 million to be spent by India for the refugees when they return - food ration and cash dole-is being provided outside this grant. In addition, India has made available to Bangladesh a loan of £ 5 million to cover initial, urgent foreign exchange expenditures. As for the longer term the reopening of traditional trade relationship is being studied by many interested parties. Bangladesh officials appear somewhat apprehensive of having many Indian traders swarm into Bangladesh and therefore the present idea is to handle all trade through the respective State Trading Corporations. Most interesting, India and Bangladesh have already initiated talks about long term riverbasin development plans for the Brahmaputra and Ganges; B.M. Abbas, still Chairman of WAPDA and in addition newly appointed Adviser to Sheikh Mujib on Flood Control, is in New Delhi right now for full scale discussions with Minister K.L. Rao of all issues involved. Furthermore, India has already set up a committee to study the possibility of reopening the traditional river and rail traffic routes from Assam to the Bay of Bengal through Bangladesh.

68. The honeymoon atmosphere between India and Bangladesh which characterised the first few weeks after the victory clearly is giving way to a more rational attitude in Bangladesh. But it is fully understood that India will be the only possible source of many items urgently needed (because of its nearness, its land access to many parts of Bangladesh, which are difficult to reach from the ports, and its willingness to help now) and that, once the most immediate needs of Bangladesh have been met, a continued close trading relationship will offer advantages to both sides, if properly handled. From the few indications I have had from the Indian side, GOI will continue to give generous help at this time of need in a very unbureaucratic manner, and is prepared to negotiate long term trading arrangements in a business-likemanner.

(E) THE ROLE OF THE BANK GROUP:

✓ 69. In respect of existing Bank and IDA projects in Bangladesh, not very much damage seems to have occurred, but information is still very spotty. Apart from some PICIC sub-projects, and the Ashuganj Silo, the education projects seem to have suffered most, through structural damage to buildings and loss of equipment. Surveys will be undertaken and submitted to us as soon as feasible.

✓ 70. Work under ongoing projects is likely to be limited to maintenance and some construction which does not require imported goods or services, until foreign exchange becomes again available. Under one or two projects expatriate consultants are likely to continue their work in the hope that some day they will receive the dollar portion of their fees.

71. As for future activities of the Bank Group in Bangladesh, actual lending will have to wait until membership procedures have been completed, but technical assistance, and somewhat later project preparation, could and should be taken up soon.

✓ 72. As the most urgent form of technical assistance we should provide staff expertise to help in the preparation of a realistic rehabilitation and reconstruction program. I have discussed this subject with UNROD and recommend that we make available to UNROD - to operate under the UN umbrella - the following experts, either from our own staff or by recruiting consultants:

- (a) One highway bridge engineer,
- (b) One railway bridge engineer,
- (c) One telecommunications engineer,
- (d) One river navigation expert,
- (e) A team of perhaps three traffic systems analysis/movement control experts,
- (f) Perhaps one fiscal expert, and
- (g) Possibly one agricultural economist.

73. The experts under (a) to (d) would assess, from a technical point of view, the damage, determine the action to be taken for repair, and review the adequacy of measures taken so far. The highway and railway engineers would concentrate on the bridges which are the critical links. They might be able to give some help with related matters, too, such as railway track, roads, rolling stock, and the need for more links with India. The telecommunications engineer would in addition have to help determine whether the previous system is simply to be replaced or, taking into account the degree of damage as well as changed requirements, internal and external - major changes in the system should be made. The navigation expert would concentrate on the adequacy of navigational aides, surveying and the need for dredging, in the ports as well as the inland waterways. Very roughly I would

guess that these experts (a) to (d) could complete their jobs in about 3 to 4 weeks in the field.

74. What I have in mind under (e) is as a group of people who can -

- (i) Monitor the traffic carrying capability of each mode of traffic, taking into account the present state of fixed assets as well as "rolling stock";
- (ii) Utilize the existing systems in a coordinated, optimal manner;
- (iii) Monitor the progress of repair or restoration of each traffic mode and assure highest priority is given to the next critical item, to achieve fastest possible improvement of the total transport system. the

Optimal use of the transport system clearly is the critical element in the relief, rehabilitation and reconstruction effort. Initially I would think that this team would have to be in operation for about three months but extension for another three months may be beneficial.

75. The fiscal expert - a possibility that came up at a late stage and that has not been discussed with UNROD - would assist the Government in assessing the present fiscal position - which is critical - and in preparing the emergency measures necessary to deal with the most immediate requirements. This expert might be needed in Dacca for about one month.

76. As for the agricultural economist, I am not fully convinced that such expertise is lacking but UNROD felt rather strongly that they would like such expert to be available to them, to guide the Government's measures for the rehabilitation of agriculture, and to advise on UNROD's activities in support of such measures. If we make such a man available, we should probably count on a term of about three months. In selecting a man we should keep in mind the possibility of attaching him later to our Dacca office on a permanent basis.

77. UNROD would like all these experts to report to Dacca as early in February as possible. I agree that by that time they should be able to operate effectively. UNROD is likely to supply from other sources experts in health and possibly in education.

78. With regard to technical assistance for longer term general economic planning, Nurul Islam may ask for our help in making available to the Planning Commission one or more specialized experts. If such a request comes, I suggest that we comply as quickly as possible; again using UNROD as umbrella (for the time being). However, if more intensive support for a longer term should be requested, a UNDP project might be more

appropriate, possibly with us as Executing Agency.

79. Continued assistance for planning in the water and agriculture sector has already been tentatively requested by Abbas. He will specify his request after he has reviewed the report of the Special Projects Department on the Interim Work Program which should be available fairly soon. I suggest that in due course we resume such assistance in one form or another, but the project preparation and implementation aspect in that sector is likely to be curtailed for some time in view of the immense competing demands on the scarce resources from other sectors of the economy.

80. As for renewed lending I suggest that as soon as it becomes clear that Bangladesh is well on its way to membership, we start preparing credits. However, even if this criterion were met very soon, I believe it will take several weeks, say mid-March, before any meaningful discussions with the Government about the scope of IDA credits can be held. Until then the Government machinery is likely to be completely preoccupied with the day-to-day requirements of relief and rehabilitation; and I think that UNROD should be entrusted with the task of coordinating all outside assistance during this period. Kuriyama will advise us when the Government is ready for discussions about future Bank Group assistance.

81. Once the way is clear for project preparation, we should consider assistance in the following fields:

- (a) a non-project credit to facilitate the quick import of
 - (i) spareparts for all kinds of machinery, industrial and agricultural;
 - (ii) raw materials and components for industrial production; and
 - (iii) if not financed by other lenders: trucks and agricultural inputs such as seeds, pesticides and fertilizer.
- (b) One or more credits for the reconstruction of the communications facilities - railways, highways, inland waterways and telecommunications; and
- (c) Several credits to resume assistance for earlier IDA projects for which disbursements were recently suspended; under these credits IDA should disburse retroactively against all expenditures made during the interim period in accordance with the original credit agreements.

82. Several credits were in an advanced stage of preparation. The Government wishes to reassess its priorities before any of these are revived, but I expect that at least some of them will be resubmitted by the Government at an early date.

83. Although I expect that most members of the Pakistan Consortium will come forward soon after recognition with some token commitments, I think it is quite likely that we will be asked eventually to play some role in selecting and preparing projects, and in coordinating assistance. This was the attitude in respect of our Action Program for water and agriculture, and I think the reasons for overall close coordination are even more compelling now. Such a role would not be easy and would carry great responsibility but I believe we could handle it, and should accept it. I assume that in due course we will also be asked to form a Bangladesh Consortium. However, whatever we may be asked to do - it is definitely too early to start talking about this subject in Dacca now.

84. Our office in Dacca can continue to function. Kuriyama has dropped his title of "Assistant Resident Representative in Pakistan - Dacca" and has changed his stationery to "World Bank Office - Dacca". In future he will of course report on all matters directly to Washington. With these changes, I believe Kuriyama can operate effectively. His return was very warmly welcomed by all Government officials and his presence will be very useful for our future relations with Bangladesh.

cc: Messrs. Mc Namara
Mc Diarmid
Votaw
Blobel
Shibusawa
Kuriyama