

THE WORLD BANK GROUP ARCHIVES

PUBLIC DISCLOSURE AUTHORIZED

Folder Title: Contacts with member countries: Pakistan - Correspondence 03

Folder ID: 1771155

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4549S

Series: Contacts - Member Countries files

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: June 28, 2013

To cite materials from this archival folder, please follow the following format:
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK
Washington, D.C.

© 2012 International Bank for Reconstruction and Development / International Development Association or
The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

PUBLIC DISCLOSURE AUTHORIZED

McNamara Papers

The World Bank Group
Archives



1771155

A1993-012 Other #: 14

209350B

Contacts with member countries: Pakistan - Correspondence 03

Folder 13

RETURN TO ARCHIVES IN MC C3-120

ISN # 116328 ACC# A1993-012

BOX # 14

LOCATION N-473-1-2

DECLASSIFIED

WBG Archives

24

25

OFFICE MEMORANDUM

TO: Files

DATE: February 23, 1972

FROM: Michael H. Wiehen *MHW*

DECLASSIFIED

S E C R E TSUBJECT: Mr. McNamara's Visit to Islamabad

MAY 09 2013

WBG ARCHIVES

1. At the invitation of the Government of Pakistan, Mr. McNamara visited Islamabad on January 29 and 30, 1972.
2. Shortly after arrival on the morning of Saturday, January 29, Mr. McNamara first met with Mr. M. M. Ahmed, Advisor on Foreign Loans and Consortium matters, and then with Dr. Mubashir Hasan, Finance Minister of Pakistan. Mr. Cargill was present at the meeting with Mr. M. M. Ahmed.
3. Thereafter, Mr. McNamara had a private meeting and lunch with President Bhutto.
4. In the afternoon of January 29, a working session with the Finance Minister and senior officials of the Government took place. Mr. McNamara was accompanied at this meeting by Messrs. Cargill, Blobel, Pichler, Ljungh and Wiehen. Detailed minutes of this meeting are attached as Annex 1.
5. In the late afternoon of the same day, Mr. McNamara paid a courtesy call on Mr. Nurul Amin, Vice-President of Pakistan.
6. In the morning of Sunday, January 30, Mr. and Mrs. McNamara, accompanied by Dr. Mubashir Hasan, visited the Tarbela Project site. During this period, Messrs. Cargill, Blobel, Pichler and Wiehen had another working session with Mr. M. M. Ahmed and other senior officials. Detailed minutes of this meeting are attached as Annex 2.
7. When Messrs. McNamara and Mubashir Hasan returned from Tarbela in mid-day, Messrs. M. M. Ahmed and Cargill reported briefly to them on the results of the morning working session.

Attachments

MHWiehen/lgl

c.c. Messrs. McNamara
Cargill
Votaw o/r
MelmothBlobel
Pichler
Shibusawa

Ljungh

President has seen

DECLASSIFIED

MAY 09 2013

WBG ARCHIVES

SECRET

ANNEX 1

MINUTES OF MEETING BETWEEN FINANCE
MINISTER OF PAKISTAN AND MR. McNAMARA
HELD JANUARY 29, 1972
IN RAWALPINDI

Present: GOP

Dr. Mubashir Hasan, Finance Minister
Mr. M. M. Ahmad, Adviser, Foreign Loans & Consortium
Mr. Ghulam Ishaq, Governor, State Bank of Pakistan
Mr. M. Raschid, Deputy Chairman, Planning Commission
Mr. A. G. N. Kazi, Finance Secretary
Mr. S. S. Iqbal Hossain, Secretary, EC & EA Division
Dr. Aziz Ali F. Mohammad, Economic Adviser, Ministry of Finance
Mr. Zafar Iqbal, Joint Secretary, EC & EA Division
Dr. Moinuddin Baqai, Joint Secretary, EC & EA Division
Mr. Majid Mufti, Joint Secretary
Mr. S. Osman Ali, Executive Director, IBRD

IBRD

Messrs. McNamara, Cargill, Blobel, Wiehen, Pichler, Ljungh.

1. The Finance Minister welcomed Mr. McNamara and thanked him for finding time in his busy schedule for a visit to Pakistan. He said he had benefitted from the advice of Bank staff on their preparatory trip in mid-January and looked forward to a period of close cooperation with the Bank on the basis of mutual understanding. Mr. McNamara replied that he was pleased to have this opportunity to discuss the relationship of external assistance required by Pakistan to the development of its economy. The Finance Minister then asked Mr. M. M. Ahmad to speak on the subject.
2. Mr. M. M. Ahmad stated that the situation confronting Pakistan was one of exceptional difficulty caused by a multiplicity of factors including past uncertainties on the political and economic situation and the interruption of the aid-flow from the Bank and the Consortium countries. Investment has been stagnating for several years. Industrial growth in

President has seen

1970/71 had dropped to almost half the trend growth rate of less than 6 percent. Agriculture was affected by persistent drought for the third year in succession and by resulting power shortages. The stagnation of the production base intensified social strains and compounded the unemployment problem. However, the situation was potentially quite manageable, provided domestic policy corrections and the resumption of external aid flows were agreed with the World Bank staff. The gap was large, but several circumstances of a special character were responsible. Pakistan was shouldering the responsibility for servicing the entire country's debt. Inter-wing trade had to be transformed into international trade. The loss of assets by West Pakistan businesses had to be adjusted since it had led to grave liquidity and solvency problems for a large number of firms. It was the transitional period which had to be taken care of - the growth prospects thereafter were promising.

3. The first issue in the transitional period was an early understanding on the moratorium. Formalization at a suitable level of debt relief was urgently required since the current moratorium was to expire on January 31, 1972. The debt service due to Consortium in FY73 was \$217 million, of which \$51 million were owed to the World Bank Group. Pakistan wished to reach a short-term debt relief arrangement with the assistance of the Bank for a suitable period during which a longer-term rescheduling agreement could be worked out on generous terms. The Bank's thinking last October had been for a relief not exceeding \$90 million per annum. Since then, Pakistan's position had further deteriorated partly because the loss of East Pakistan substantially reduced both foreign exchange and rupee receipts, and it was not Pakistan's judgement that debt relief

of \$120 to \$125 million per annum for FY72 and 73 was the appropriate figure. Indeed, he said this was a minimum figure since as much as \$75 to \$90 million of the debt service related to assets located in East Pakistan. In view of the large balance of payments gap, Pakistan thought it was desirable that the World Bank, which was receiving more than 20 percent of total debt service payments to the Consortium, should also participate in extending debt relief. If, however, the Bank found it impossible to do so, an equivalent amount in program lending should be made available to cover the gap.

4. Mr. McNamara ~~exp~~ explained the reasons why an otherwise reasonable suggestion for Bank participation was not feasible. The Bank had to protect its position as a "preferred creditor" since it depended on private capital markets for new funds unlike official lenders who rely upon the taxing powers of sovereign governments. Investors who purchase IBRD bonds look at the strength of the Bank's portfolio. A debt study produced by the Bank some months ago had indicated that the debt problems of the developing countries would be intensifying as outstanding debt was rising rapidly relative to their foreign exchange earnings and domestic saving capacity. There was a likelihood of greater frequency of debt rescheduling in the future. Chile, Ghana, India and Pakistan, all substantial borrowers from the Bank, were seeking debt relief. For the Bank now to participate in debt relief for Pakistan might seriously jeopardize the potential sources of capital. The Bank would therefore prefer to help through program lending; project lending was not appropriate at this stage, and quicker disbursing and more flexible resources would be required.

5. Mr. M. M. Ahmad agreed that project aid was not a priority at this time since the whole content of the development program was under review by the new government. The only exception to this was the possible

reactivation of a line of credit for PICIC. If the Bank was unable to participate in a debt exercise, he felt Pakistan's case for a large IDA credit was strong since for a year the Bank had been receiving debt service from Pakistan without making any new resources available (Mr. McNamara intervened to state that the Bank Group had in fact made disbursements of about \$60 million since April 1, 1971). Mr. M. M. Ahmad stated that the Government had earlier been given to understand that Pakistan would receive an IDA allocation of \$110 million per year, and having missed one year completely it would not be out of line to suggest an IDA program credit for Pakistan of \$50 to \$60 million in view of the special problems facing the country.

6. Mr. McNamara replied that assuming Pakistan took action on certain policy matters, the Bank Group was prepared to consider a substantial IDA program credit. In fact, the Bank had been talking about this for the past 18 months. It had not found it possible to make fresh commitments since August 1970 (except for cyclone relief), not because of a lack of desire to be helpful but because of its conviction that the Government's economic policies in certain key areas were not appropriate. If the economic policy environment were to change, the Bank was prepared to make assistance available promptly. Such a change was necessary in Pakistan's own interest.

7. The Finance Minister stated that the requirements that had been spoken of were for a transitional period only. Past lending by the Bank and the Consortium had evidently not produced the results which were intended because of bad management by the borrowers. The present government had a very strong self-reliance objective and was not thinking of continuing

beyond June 30, 1974 to borrow at the scale that Pakistan was used to in the past. By that time necessary adjustments in the economy would have been made to galvanize the energy of the entire nation. He was not casting blame on individual officials for past errors. These officials were as much victims of a certain system as were the masses. Since the present government was a successor to the past regimes it was prepared to accept the liability for the whole country despite the fact that they were not convinced that past credits had been properly evaluated or used. In the coming 2½ years the Government would make the necessary political, social etc., adjustments to enable the whole nation to benefit from aid. As long as the political price was not beyond the capacity of the country to pay, his government was prepared to take hard decisions. The period of "adhocery" had now ended. A far reaching land reform and a revamping of the industrial structure were in train. He recognized that there was a credibility gap at this time. Time would prove, however, what the capacity and potential of the country were, and the world could judge whether the new government was protecting any particular group or class or was working in the interest of the entire people of the country.

8. Resuming the discussion of commodity aid, Mr. M. M. Ahmad noted that because the balance of payments gap was very large, a substantial contribution by IDA in a quick disbursing form was necessary. The counterpart of such commodity assistance would also provide support to the budget. He recalled that a large commodity loan had been made to Nigeria at the end of its civil war for reconstruction purposes and hence the request by Pakistan was not unprecedented.

9. Mr. McNamara noted that the loan for Nigeria should perhaps not serve as a model because there was a very long delay between the cessation of hostilities and the beginning of disbursements. He reiterated that the Bank would be prepared to act quickly in this case if there was no delay in action by Pakistan. Mr. M. M. Ahmad responded by stating that the urgency of action was fully realized.

10. Turning to prospects for future growth of Pakistan's economy, Mr. M. M. Ahmad stated that the present thinking was that the development program would rely on export-led growth. Performance in the last 15 months had been encouraging with an increase of 25 percent in 1970/71 in exports over the preceding year, with exports in the current year again running 15-20 percent over the corresponding period of last year, and excellent long-term prospects. An area of potential dynamism was agriculture, where a large group of entrepreneurial farmers had emerged; this class was prepared to innovate, to adopt the new seed-based technology and to support it with use of fertilizers and other inputs. Agriculture would receive prime attention because the betterment of a large segment of the country's population depended on it. Enlargement of the purchasing power in rural areas also created markets for industrial goods and would generate employment through programs of public works. The full details of these programs would emerge by the time of the next budget when the ADP would be formulated.

11. Mr. McNamara responded by stating that he had come to Pakistan to express the Bank's anxiety to be helpful and to explain that the Bank Group had not made any fresh commitments to Pakistan for some months because as the custodian of scarce resources (i.e., IDA funds) entrusted to it by

the world community, it felt it would not have been in the interest of IDA's members if it had made any commitments in the recent past. As for the future, he emphasized that the Bank could not and would not tell Pakistan what it should do; decisions on policy matter obviously were the prerogative of Pakistan as a sovereign country. But the Bank did have a duty to say frankly how it viewed the economy of Pakistan, and to identify the areas where we felt that corrective action was necessary. He agreed that the regularization of the moratorium, through a short-term debt relief arrangement, was the first priority. The Bank would address itself to this problem in the next few weeks and would be prepared to convene a meeting in the latter part of February to discuss at least the short-run if not the long-run, problem. In the meantime, Pakistan would need to consider action to correct an exchange regime that had been responsible for creating a series of distortions. If international assistance had not yielded its full benefits in the past, it was partly because economic policies in this field were not adequate. Next it was necessary to reform the fiscal situation either by reducing non-development expenditure or by raising revenues so as to generate enough internal resources for financing the country's investment programs. No amount of external aid would help if the matching resources of local expenditure were not generated through internal resource mobilization. The Bank's initiative could only go hand-in-hand with Pakistan's own action. He reiterated once again that provided the appropriate policy frame work would exist, the Bank Group would provide prompt and effective assistance, together with the IMF and the member countries of the Consortium. There was, however, one qualification to his commitment to provide IDA assistance, namely completion of action on the Third Replenishment of IDA by the US Congress.

12. Mr. McNamara then enquired why the Government in listing total requirements in FY 1972/73 at \$300 million comprising \$120 million of debt relief and \$180 million of commodity aid by the Bank Group and the Consortium, the availability of an IMF stand-by credit had not been considered. Mr. M. M. Ahmad explained that the amount of the stand-by was not known. Pakistan had to pay \$38 million to the IMF in 1972/73 by way of repurchases which had already been rescheduled. Hence, the net availability of IMF money next year was not likely to be very substantial.

13. The Finance Minister at this point observed that his government had been in place only a short time, and that the requirements listed were, therefore, much the same that had been presented by the former government. For example, there was no provision yet for a planned large public works program which would involve the participation of the masses who had benefited little from past investment programs, while a few had been enriched and some more had benefited as mercenaries. Clearly the new programs would require a large management and organization effort. There was no thought of returning to the former type of rural works programs but the new types of programs had not reached that stage of finalization where figures on their foreign exchange requirements could be put forward. The deficit being projected at this stage was essentially for carrying on the economy while detailed work on identification and organization of new projects was being completed.

14. The Finance Secretary then explained in some detail the basis for the projections of the balance of payments which had been given to Mr. McNamara. He confirmed that these projections made no provision for new project lending and that any finance of projects during the coming

year would be strictly out of the pipeline.

15. The Finance Minister continued stating that the figures of the balance of payments gap would change for the better once the underlying system of planning and development had been changed. His party had always criticized the waste involved in past programs and now, that they were in charge of the government, they would set things right. The economy has become used to a certain level of external deficit because the entire pattern of consumption and investment was designed to throw up a deficit of vast magnitude. His government was receptive to new ideas for mobilizing resources and would collect every paisa from wherever it was available, as well as stop waste in non-development expenditure. It was recognized that a political price would have to be paid but there would be no hesitation in taking action since the survival of the government and perhaps of the nation depended on it. However, the problems were so many that it was difficult to know where to start. The deterioration in national standards in education, health and other sectors was great. New beginnings were being made but it would take some time for these initiatives to come out of the ground.

16. Mr. Cargill enquired why in view of the possibility of diverting substantial inter-wing exports to foreign markets and given the strong entrepreneurial base in West Pakistan, the export projections for next year predicted an increase of only 8 percent. The Finance Minister responded that the new government did not wish to make promises that it could not keep. Mr. Cargill observed that while it was important to be conservative, the figure should not be such as to arouse suspicion that the capacity of the economy to finance its requirements was being understated and the burden on

foreign creditors correspondingly increased. Mr. Aziz Ali explained that an increase of 8 to 10 percent was by no means negligible considering that the export earnings of the last and current year were helped by a substantially higher level of raw cotton prices in world markets which may not continue next year. Moreover, the present power shortages in West Pakistan would adversely affect the flow of manufacture exports.

17. The Finance Minister concluded the meeting by remarking that the spirit behind the policies and intentions of the new government was far more important than any figures. This spirit had changed radically. If action had to be taken, it would be taken in the country's national interest. If anyone wished to help, Pakistan would take that help if it was valuable. The new government wished to approach its problems with humility. It was aware that given the past mis-management its request for aid was not a matter of right. It had no claim upon the international community but would seek their help in the expectation and confidence that the country would do far better in future than it had performed in the past.

J. Hanns Pichler/Michael H. Wiehen
Islamabad, Pakistan
February 4, 1972

(typed in Washington on February 24, 1972)

26

DECLASSIFIED

MAY 09 2013

WBG ARCHIVES

SECRET

Annex 2

MINUTES OF MEETING BETWEEN PAKISTAN GOVERNMENT
AND BANK OFFICIALS TO FOLLOW UP ON PREVIOUS
DAY'S DISCUSSIONS WITH MR. McNAMARA

Held on 30 January, 1972
in Islamabad

Present: GOP

Mr. M. M. Ahmad, Adviser, Foreign Loans and Consortium
Mr. A. Kazi, Secretary, Finance
Mr. G. Ishaq, Governor, State Bank
Mr. I. Hossain, Secretary, ECEAD
Mr. Z. Iqbal, Joint Secretary, ECEAD
Mr. Aziz Ali, Economic Adviser, Ministry of Finance
Dr. M. Baqai, Joint Secretary, ECEAD

IBRD

Messrs. Cargill, Blobel, Wiehen, Pichler

1. Mr. Cargill pointed out that he had asked for this follow-up session in order to crystallize some of the points of the discussions held the day before with Mr. McNamara. He mentioned that the figures on the external requirements had come out rather high which posed some problem. He also emphasized that in order to proceed expeditiously with a proposed program credit, GOP would have to start work right away.

2. Mr. M. M. Ahmad asked if the new program credit would be broadly along the lines of the previous industrial imports credit to Pakistan. Mr. Cargill replied that this would be basically so, that one could imagine a somewhat more liberal approach, for instance including fertilizer and other items which might be of importance under present circumstances. Generally, however, he would advise to stick to the old pattern. The intention was to aim at a credit in the order of \$50 million, which could be disbursed as quickly as possible. The timing for all this was most important, and all efforts should be made to

President has seen

get the credit signed before the end of June; if this should not materialize, then the whole matter might get tangled up in the uncertainties of next year's IDA allocations.

3. Mr. Ghulam Ishaq pointed out that the scope of the imports spectrum would have to be quite broad in order that an effective balance of payments support would be achieved; this would not be the case if the credit were confined to a few industrial sectors, as was the case with earlier credits. Mr. Cargill said that this would have to be sorted out by the GOP, but in any case the identification of sectors and their requirements should be carried out as quickly as possible. A Bank mission would be scheduled to come soon, possible in early March.

4. Government officials said they expected some problems to arise with regard to end-use, identification and control of imports, especially for the items to be financed under free market transactions, given an early exchange reform. Mr. Blobel asked whether the Government would consider operating through the State Trading Corporation, but this was felt to be too cumbersome and slow. Mr. Cargill, in reply to a question, indicated that the Bank would certainly give consideration to the possibility of some retroactive financing under the proposed program credit, but added that he could not say whether this would really be possible, or to which extent. This possibility should, however, be taken into account in the preparatory work.

5. As to the timing of measures, Mr. Cargill remarked that in his view the first priority would be to get on with the exchange reform. It would be desirable to consult the IMF before an announcement, and he knew that the Fund would be prepared to come to Pakistan at short notice. This would not necessarily

mean negotiating a stand-by credit right away, but preliminary preparations could be made; in any case, the Fund probably would be reluctant to submit a stand-by proposal to its Board without prior "regularization" of the existing moratorium. It would be very helpful if the exchange reform would be announced before the Pakistan Consortium meeting scheduled for end-February.

6. For the Bank to start its preparatory work on a new debt relief, it would be necessary promptly to obtain updated debt service figures on a monthly basis from May 1971 through June 1973; these figures should include PAYE (Pay As You Earn) payments which previously had been excluded. It was understood that even with the inclusion of PAYE numbers, there would still remain some discrepancies between debt records of the donors and the Government, but that these could be sorted out later. Mr. Aziz Ali emphasized in this context that in any case only GOP figures should be used for a rescheduling proposal because they would have to form the basis for any agreement between the Government and its creditors.

7. As for the period to be covered by the short term arrangement, it was agreed that the terminal date should be kept flexible between December 1972 and June 1973; that is, counting from May 1971 either 20 months or 26 months. Mr. Cargill pointed out that the 26-month alternative would be presented to the Consortium but if this would meet with resistance, then we would suggest 20 months in order to avoid unnecessary difficulties. Messrs. Aziz Ali and Ghulam Ishaq said that from the point of view of the Government's budgeting, the 26-month period would be vastly preferable since it would cover the whole next fiscal year, and a mid-year break would present procedural difficulties as next year's budget would probably have to be presented to the National Assembly.

8. Besides the overall question of burden sharing, Mr. Aziz Ali raised the following points for consideration by the Consortium:

- (i) At which rate would moratorium interest be charged, if any?
- (ii) Will a medium-term repayment schedule have to be built in, or would a complete stand-still arrangement be acceptable?
- (iii) What assurances would be required on debts to non-Consortium countries?
- (iv) What would bilateral conditions in connection with any stand-by arrangement be?

9. As to the moratorium interest, the Government felt strongly that it should be waived altogether. Mr. Cargill said that one should not be too optimistic in that regard, since even a five percent limit as proposed earlier had not been received by the Consortium very enthusiastically. On the second point, Mr. Cargill agreed that too short repayment terms should be avoided. With regard to non-Consortium debt arrangements, Mr. M. M. Ahmad pointed out that probably nothing less than the Consortium arrangement could be expected. On the last point, Mr. Cargill said that this would have to be left to the IMF.

10. As to the levels of projected assistance assumed in the balance of payments forecast, Mr. Blobel raised some questions as to their magnitude. He pointed out that according to these numbers, something in the order of \$280-290 million would have to be provided in FY 1972/73 by the Consortium alone, of which about \$110 million would be accounted for by debt relief, and the rest by commodity aid disbursements. This excludes IDA assistance which is to be added, plus another \$160 million project aid (including Tarbela) which altogether

would result in a gross flow of over \$500 million, still leaving out any food aid. This is, no doubt, very high for West Pakistan alone since it is about the same as "normal" gross inflows in the past for Pakistan as a whole.

11. Mr. Aziz Ali pointed out that the gross inflow has to be seen against the debt service burden of about US \$250 million annually which makes the net position less overwhelming. It should also be noted that the projected requirements should be looked upon in a flexible manner as a sort of fall-back position with the intention that GOP would not ask for more, and with the understanding that the projections really do not distinguish between commitments and disbursements.

12. Mr. M. M. Ahmad then summarized that the primary question was whether the projections could be considered reasonable or not. He mentioned four essential points to take into account in this context: (i) the burden of the debt liability for East Pakistan; (ii) recognition of the transitional adjustment requirements; (iii) short-term requirements in connection with exchange reform; and (iv) lack of commitments from Consortium members for over one year. These elements should be presented to the Consortium for due consideration. If the Consortium could not meet these requirements, then certain adjustments would have to be made.

13. As to the 1972/73 export projections, it was more or less agreed that they may well be on the low side, but GOP was reluctant to be too bold at this stage because of the many uncertainties which were still there.

14. Regarding a footnote to the FY 1972/73 balance of payments table which mentions a likely requirements of project aid disbursements in the order of \$200 million against the projected \$160 million, Mr. Kazi pointed out

that this estimate took into account possible additional requirements for social programs under the new emphasis of the present Government; it simply should signal that some additional project aid commitments might also be required and that they should not be considered to be precluded entirely.

15. It was agreed that in the short-term the emphasis in the approach to the Consortium should be on commodity aid, and Mr. Cargill said that the Bank certainly would concentrate on that. Mr. M. M. Ahmad concurred but mentioned as a tactical point that the impression ought to be avoided that requests for project aid would now be shifted to non-Consortium sources; this was certainly not intended.

JHanns Pichler/MHWiehen:kvj
Islamabad, Pakistan
February 4, 1972

(typed in Washington on February 24, 1972)

27

OFFICE MEMORANDUM

TO: MEMORANDUM FOR RECORD

FROM: I.P.M. Cargill *L. Cargill*

SUBJECT: Meeting of Pakistan Ambassador and Mr. McNamara on February 26, 1972

CONFIDENTIAL
DATE: March 21, 1972

MAY 09 2013

WBG ARCHIVES

The Pakistan Ambassador called on Mr. McNamara on February 26 to deliver a personal message from President Bhutto. This message (which is on the files) suggested, in brief, that the meeting of Heads of Delegations of the Pakistan Consortium scheduled for October 1 to discuss short-term debt relief should be postponed as the Government of Pakistan would not be able to introduce various exchange and fiscal reforms until April and the Government understood that the taking of these actions was a condition for holding the meeting. Mr. McNamara said that in his conversation with President Bhutto, the President had made it clear that it would take a month or two to take these actions and that he (Mr. McNamara) had at the time expressed the view that this should not prevent the meeting taking place as scheduled at the end of February. Necessary agreements could be reached at this meeting and preparations could be made to implement them as soon as the Government had taken the necessary action. Mr. McNamara felt that the postponement of the meeting at this late stage after many of the delegates had already left for Washington would be open to misinterpretation. He did not feel that there was any great risk that confidential plans of the Government would be made public as ~~for~~ the purpose of the meeting would not require any discussion of them.

I later drafted a message to President Bhutto from Mr. McNamara which, I understand, the Ambassador sent.

President has seen

28

OFFICE MEMORANDUM

TO: Files

DATE: June 13, 1972

FROM: Michael H. Wiehen *MHW*~~CONFIDENTIAL~~

DECLASSIFIED

SUBJECT: Meeting of Mr. McNamara with Ambassador of Pakistan

MAY 09 2013

WBG ARCHIVES

1. On Monday, June 12, at 12:15 p.m., Mr. Sultan Mohammad Khan, newly appointed Ambassador of Pakistan to the United States, called on Mr. McNamara. The Ambassador's visit was essentially a courtesy call.
2. The Ambassador first inquired in general terms how Mr. McNamara viewed the outcome of the May 26 Pakistan Consortium meeting in Paris. Mr. McNamara replied that he thought it had been a good meeting indeed, and that he hoped that all steps remaining to make the debt relief effective would be taken promptly.
3. Mr. McNamara then referred to his visit to Islamabad at the end of January; he said that at that time Mr. Bhutto had faced tremendous problems, and asked the Ambassador what the situation was at present. In response, Mr. Sultan Khan described the political developments since January in some detail. He said strong political tensions had arisen, particularly in the two smaller provinces, Baluchistan and North West Frontier Province, but that Mr. Bhutto had dealt with them quite firmly, and the situation was now reasonably stable and calm. The Ambassador also referred briefly to the recent unrest among the labor force, particularly in and around Karachi. He said that these labor troubles were exploited by some of Mr. Bhutto's political opponents, but he added that the labor unrest had its peak in February-March and was now subsiding. President Bhutto was giving his full attention to the labor situation.
4. Ambassador Sultan Khan spoke about the forthcoming meeting between President Bhutto and Mrs. Gandhi, scheduled for June 28. He said that it was extremely difficult to predict the outcome of this critical encounter. He cautioned that on some negotiating positions apparently held by India no political leader in Pakistan could yield. He pointed out that the priorities for items to be dealt with first before other subjects could be tackled with any chance of success were different on the two sides: While Pakistan would wish the return of the prisoners of war and the disengagement of troops along the common border to be dealt with first, India might well wish to discuss the future of Kashmir first, which would make for a very difficult position for President Bhutto. He stressed that the two armies in some places were too close to each other for comfort, and that some nasty incidents had occurred, and might happen again. He felt that as the troops were presently deployed, India might well try to improve their position further before the talks, and he did not exclude the possibility that local commanders of the Pakistan army might be tempted to do likewise. He said his Government has no indication that India would make real efforts towards a lasting settlement. Much would depend on how Mrs. Gandhi would approach the June 28 talks; if she were to attempt dictating a settlement to Pakistan, this would clearly not be acceptable.

President has seen

June 13, 1972

5. The Ambassador repeatedly stressed the need for a face-to-face meeting between Mr. Bhutto and Sheikh Mujib before Pakistan was in a position to recognize Bangladesh. He said that if the trials of collaborators and war criminals would in fact take place as now scheduled, Mr. Bhutto would find it extremely difficult to recognize Bangladesh. However, the Ambassador told Mr. McNamara that when Mr. Bhutto was in Moscow recently, the question of recognition of Bangladesh by Pakistan was discussed; and on that occasion Mr. Bhutto had stated his intent to recognize Bangladesh, provided at least one face-to-face meeting with Sheikh Mujib would take place beforehand.

6. Mr. McNamara then told the Ambassador that the proposed \$50 million Industrial Imports Program Credit was scheduled for Board presentation on June 22, but that because of the delay in the IDA replenishment, the funds which were necessary before the Credit Agreement could actually be signed were not yet available. He explained that in fact IDA had had no commitment authority since early April of this year, and that a number of projects, including the proposed Industrial Imports Program Credit to Pakistan, had been or would be presented to the Executive Directors subject to later availability of funds. Mr. McNamara went on to explain the two-stage procedure of the U.S. participation in the IDA replenishment; he said that the authorization part had been completed and signed by the President, while the appropriation bill had not yet been passed by Congress. He added that there was agreement between the Association and the U.S. Treasury that legally ratification by the U.S. of the IDA replenishment could go forward on the basis of the authorization act and need not await the corresponding appropriation, but that the U.S. administration felt ratifying the replenishment now might well make it even more difficult to obtain the approval of Congress for the appropriation.

7. Ambassador Sultan Khan inquired whether this delay was of a routine nature. Mr. McNamara replied that this unfortunately was not the case; he referred to the strong resistance in Congress to the traditional aid policies of the U.S. Government. However, in concluding the meeting, Mr. McNamara expressed the hope that the appropriation bill would be passed by Congress soon so as not to delay for too long the signing of the Industrial Imports Program Credit to Pakistan.

cc: Mr. McNamara
Mr. Cargill (o/r)
Mr. Votaw
Mr. Melmoth
Mr. Blobel (o/r)
Mr. Pichler

MHWiehen/lgl/kvj

PERSONAL BIODATA ON SULTAN MOHAMMAD KHAN

Sultan Mohammad Khan has been Foreign Secretary since December, 1969. He is one of only a few senior administrators to retain his position when Mr. Bhutto assumed power in December, 1971. Sultan Khan is considered expert on Chinese Communist affairs. He was born in 1919. He was commissioned in the Indian Army in 1942 and has served in various posts in the Far East during World War II. In 1946 he was appointed to the Indian political service but at the time of Partition of the country in 1947, opted for Pakistan. He has served in the Pakistan Foreign Service in Cairo, New Delhi, Rome, Peking, Ankara, and London. From 1962 to 1966 he was High Commissioner for Pakistan for the area of Canada, Cuba and other Caribbean islands. In 1966 he was named Ambassador to the Peoples' Republic of China. In 1966 he was appointed Additional Foreign Secretary in the Ministry of Foreign Affairs.

He is viewed as being politically and culturally Western-oriented. He has travelled widely, including many visits to Europe and several trips to the U.S.S.R., the Peoples' Republic of China and the U.S. During his last trip to the U.S. in November, 1971, Sultan Khan met with the President, Secretary Rogers, Dr. Kissinger, and other U.S. officials. He arrived to take up his present position as Ambassador in April, 1972, and presented his credentials in May, 1972.

JHStewart/lgl
June 12, 1972

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 8, 1972

FROM: Gregory B. Votaw *GN*SUBJECT: Visit of Mr. Sultan Khan, Ambassador of Pakistan

1. The newly appointed Ambassador of Pakistan, Mr. Sultan Muhammed Khan, SPk, SQA, PFS, is scheduled to call on you Monday, June 12 at 12:15. I do not believe that he will raise any points of substance, however, a brief outline of the current status of our operations in Pakistan is given below:

2. Exchange Reform

On May 11, 1972 Pakistan announced a far reaching exchange reform, setting the new par value at Rs. 12 per SDR, or Rs. 11 per US dollar, abolishing the multiple exchange rate system, and a complementary program of import liberalization measures. On May 18, 1972, the IMF agreed on a standby in the amount of SDR 100 million.

3. Operations - Fiscal Year 1972

The proposed Industrial Imports Program Credit of US \$50 million is scheduled for consideration by the Executive Directors on June 22. This is the only operation in the current year. The President's Report on this credit proposal contains an up-to-date statement on the economy of Pakistan.

4. Operations - Fiscal Year 1973

When Michael Wiehen visited Islamabad last month he reviewed with the Government the possibilities for IDA lending as well as for our future economic work (a copy of Wiehen's letter to Iqbal Hosain, dated April 19, 1972, Attachment 1). The Government has not yet established its sectoral priorities and agreement on projects to be aided by the Bank Group is unlikely to be reached before July or August, after the budget for FY73 and interim annual developments plan have been issued. There may be a need for another program credit in FY73.

5. Economic Work

A general economic mission is scheduled for September. In addition, a staff member will join the IMF mission which will visit Pakistan in July to review the 1972/73 budget and reach understandings on the credit ceilings to be established for the period after June 30,

June 8, 1972

1972. A mission reviewing the electric power sector is in Pakistan at the moment; other sector missions (particularly cotton and livestock) are being prepared.

6. Old Loans/Credits

The Government of Pakistan for the time being is continuing to look after all Bank/IDA debt service payments including those attributable to projects in East Pakistan. The status of loans and credits, as at April 30, 1972, is given in Attachment 2.

7. Debt Relief

(a) Short Term

The Consortium at its meeting on May 26 reached the following understanding with Pakistan.

- (i) Provision of short term debt relief covering approximately \$23 $\frac{1}{2}$ million for a period of 26 months, May 71 - June 73. The press release of that meeting and an Agreed Minute describing the general understanding are in Attachment 3.
- (ii) The bilateral agreements carrying out this general agreement are expected to be negotiated and concluded shortly.
- (iii) The need for reaching similar agreement with non-Consortium countries was discussed and the Pakistan authorities undertook to pursue this issue.

(b) Long Term

As soon as these bilateral agreements are finalized, we intend to begin preparatory work for a longer term debt rescheduling agreement.

8. Commodity Assistance

To complement the short term debt relief measures referred to above, several of the Consortium members indicated their readiness to resume commodity assistance to Pakistan; for detail, see memorandum dated June 1 and 5 in Attachment 4 (these had been sent to you earlier).

JHStewart/MHWiehen:kvj



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

April 19, 1972

Mr. S. S. Iqbal Hosain
 Secretary
 Economic Coordination &
 External Assistance Division
 Government of Pakistan
 Islamabad, Pakistan

Dear Mr. Iqbal Hosain:

The members of our recent Industrial Imports appraisal mission have returned to Washington and are now writing their report. We all hope that the stage will be set soon by action at your end so that we may process this credit for early completion, perhaps before the end of the current fiscal year. Assuming that this is so, I feel that it would be helpful both to you and to us if we could have at an early date a general discussion on a broad range of subjects concerning the Bank Group's activities in Pakistan. I am tentatively scheduled to visit Islamabad for a few days in mid-May. On that occasion I would like to spend some time with you and your colleagues talking about the present status of current Bank and IDA operations, as well as possible future Bank Group activities.

Future Lending Operations

2. As for future lending operations, we will of course have to think primarily in terms of IDA credits. I doubt very much that under the present circumstances any Bank loans could be considered. It is also very difficult to talk with any great certainty about the best use for IDA funds, considering that we don't know at this stage how much IDA money will be available in general, and how much will be earmarked for lending in Pakistan in the next two or three years, and considering further that there might be a prima facie case for another industrial imports credit. However, despite these uncertainties, I think it would be useful if we could together review all project proposals that might be suitable for IDA financing. I am aware that your Government is now reassessing previous development plans, and that the investment priorities may not have been fully determined by the time of my visit. Nevertheless, I would consider it very useful to have such discussions soon; even though the determination of priority among individual projects may be tentative, it would be most interesting for us to hear of the sectoral and regional priorities.

3. As you know, we have listed in our Monthly Operational Summary for some time five possible projects, and over the last year or so you have sent us additional project proposals which we were unable to process. As a result

April 19, 1972

of the present reassessment of development priorities by your Government, other high-priority projects suitable for IDA financing might be selected which you may wish to substitute for project proposals submitted to us earlier. I hope that we could have at least a preliminary review of all possible projects.

4. We had already appraised two projects for Bank Group financing; a transmission project for KESC and a second phase of the Lahore Water and Sewerage project. The KESC project clearly needs redefinition, assuming that the Asian Development Bank will provide financing not only for generation facilities, but also for urgent elements of the transmission and distribution network. The Lahore Water project may also need modification, partly to take into account works taken in hand in the last few months, and partly to reduce the scope of the project in case Sweden should not join IDA in financing this project. In addition to these two projects, we had appraised a SCARP project (Panjnad-Abbasia), which we understand was withdrawn by the authorities of the Government of the Punjab; engineering work to prepare the next phase of Karachi Port construction, financed with an IDA engineering credit, is near completion and the decision whether or not to go ahead with this project will have to be made fairly soon; and we had also for some time considered lending some more money to PICIC. These are the five projects which have been listed in our Monthly Operational Summary.

5. In addition, you have submitted various other project proposals to us during the last year or two, most of them in an early stage of preparation. I am thinking here of the Gandaf Tunnel/Pehur Canal project, Phase I of the civil works for Tarbela Power House Units 5 to 8, the proposal of SGTC to expand its pipeline capacity from Sui to Karachi, and the WPIDC Multan Fertilizer project. The information available to us on all of these proposals varies from case to case, but it appears that each one of these projects could be considered seriously. I enclose as Annex A a list with a few notes on each one of these projects, hoping that this might facilitate our review of them.

6. With the limited IDA funds that are likely to be available in Pakistan under the best of circumstances, it is clearly impossible to support all of these projects in the near future. You may indeed wish to consider submitting some of them to other lenders (like the Asian Development Bank) in case IDA financing should not be available, or at least not as early as you wish.

Future Economic Work

7. As you know, we issued our last economic report in July, 1970. We have now tentatively scheduled an economic mission to visit Pakistan in September of this year. In preparation for that mission, we may attach one or two economists to the IMF mission planned for July. In addition, we are scheduling a number of other missions dealing with specific aspects of Pakistan's economy. The Power Sector Review mission is already in Pakistan. In mid-May, we would like to send two or three people to discuss with authorities in Islamabad and possibly in Lahore, Karachi, Peshawar and Quetta the recommendations of the Transport Coordination Study for West Pakistan, and to determine the most useful action to be taken in this field now. We are also considering to send in August or September of this year a fairly large mission to prepare a comprehensive review of the cotton sector, including the agricultural as well as the

industrial side. We are right now studying your comments on the 1970 report of the Indus Basin -- Agriculture Review Mission which we received on March 20; it may be desirable to up-date the findings of that report in the light of the developments during the last two years. It is because of the high priority that we attach to these missions, particularly the cotton sector review, that we feel the comprehensive livestock sector review which was originally planned for last year should not be undertaken until about a year from now. As soon as the report of the Power Sector Review mission is available, we will also prepare plans for an over-all review of the total energy sector of Pakistan, which would focus on all available energy resources. I assume that this will also take place some time in 1973. I would very much welcome any comments you may wish to make on these plans.

Current Bank/IDA operations

8. While we should also discuss on the occasion of my visit the present status of Bank and IDA projects located in West Pakistan, I would particularly like to discuss with you in some detail future action to be taken with regard to projects located in East Pakistan as well as loans and credits for beneficiaries which until recently were doing business in both East and West Pakistan. As regards projects located in East Pakistan, there were 12 active projects with a present undisbursed balance of \$95.6 million. As you know, disbursements on these projects were suspended on December 29, 1971. As we indicated to you in our cable of December 29, 1971, notifying you of the suspension, the Bank and IDA are prepared to make further disbursements under these projects if your Government submits the appropriate withdrawal applications. I have written to you on this subject twice, on March 15 and again on April 13, advising you of all the claims that contractors, consultants and suppliers have submitted to us. As you are aware from a memorandum of Mr. McNamara to the Executive Directors dated April 4, 1972 (R72-74; copy enclosed for easy reference), we expect to receive from Bangladesh, if and when it becomes a member of the Association, requests to provide financial assistance for the completion of on-going IDA projects; in the meantime, Sweden will provide interim financing to carry on with most of these projects pending completion of membership procedures for Bangladesh. Obviously, if and when new credits for these projects are made to Bangladesh, the undisbursed amounts under the 12 credit agreements with Pakistan concerning projects located in East Pakistan will have to be cancelled. During my forthcoming visit I would very much like to reach a general understanding with you as to which of the claims that have arisen prior to December 29, 1971 should be paid out of the existing credits, so that we can prepare the action necessary to cancel the amounts not likely to be needed. Incidentally, the above memorandum of Mr. McNamara received the full support of the Executive Directors when they considered it at their meeting on April 18.

9. Regarding projects with components in both wings, the headquarters of project institutions or agencies (the T & T Department, the Agricultural Development Bank, the Industrial Development Bank and PICIC) are now all located in West Pakistan, and the West Pakistan portions of the projects are continuing, with disbursements taking place in the normal manner. In all of these cases the question arises whether undisbursed amounts originally destined for East Pakistan should be reallocated for use in West Pakistan. The criteria to

April 19, 1972

consider in this context are, in each case, the amount remaining undisbursed, the original intentions as to the sharing of the loan or credit between the two wings, the existence of important and urgent uses in West Pakistan for the remaining undisbursed amount, and the possibility to utilize the full credit without extending the period of disbursement unreasonably long. We expect to send supervision missions soon to review these questions with regard to the Industrial Development Bank project and the two telecommunications credits. The case may be a little easier with regard to the last PICIC loan and the credit for the Agricultural Development Bank. Nevertheless, I would like to review all of these cases with you before we prepare the appropriate recommendations to our Executive Directors.

10. I hope very much that we will have sufficient time to consider all of these matters at some length during my forthcoming visit. I am looking forward very much to seeing you and your colleagues on that occasion.

With kind personal regards,

Yours,



Michael H. Wiehen

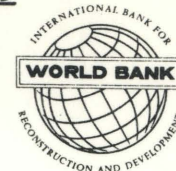
Enclosures

bc: Mr. S. Osman Ali
Mr. H. R. Malik (Pakistan Embassy)
Mr. C.G.F.F. Melmoth
Mr. G.B. Votaw
Mr. M.G. Blobel
Islamabad Office

THE STATUS OF BANK GROUP OPERATIONS IN PAKISTANA. STATEMENT OF BANK LOANS AND IDA CREDITS
(as at April 30, 1972)

Loan or Credit Number	Year	Borrower	Purpose	Amount (US \$ Million)		
				Bank	IDA	Undis- bursed
			Loans and credits fully disbursed	352.8	222.9	
			Loans and credits being disbursed			
266	1960	Pakistan	Indus (multipurpose)	90.0	-	18.5
50	1964	Pakistan	Education	-	8.5	3.3
376	1964	Karachi Port	Port Development	17.0	-	4.3
54	1964	Pakistan	Highways	-	17.0	1.4
106	1967	Pakistan	Lahore Water Supply	-	1.8	0.01
548	1968	Pakistan	Tarbela (multipurpose)	25.0	-	25.0
549	1968	Dawood Hercules	Fertilizer	32.0	-	0.002
578	1968	Pakistan	W.P. Highways II	1.1	-	0.1
145	1969	Pakistan	Telecommunications	-	16.0	6.8
590	1969	PICIC	Industrial Development	40.0	-	3.8
597	1969	SNGPL	Sui Northern Gas II	8.0	-	0.2
621	1969	Pakistan	Western Railway	14.5	-	9.7
157	1969	Pakistan	Agricultural Bank III	-	30.0	13.3
177	1970	Pakistan	Ind. Development (IDBP)	-	20.0	11.6
696	1970	SNGPL	Sui Northern Gas III	19.2	-	6.7
S-9	1970	Pakistan	Port Engineering	-	1.0	0.6
186	1970	Pakistan	Telecommunications II	-	15.0	15.0
206	1970	Pakistan	Engineering Education	-	4.0	4.0
213	1970	Pakistan	W.P. Power Distribution	-	23.0	23.0
			Sub-Total	246.8	136.3	147.31
			Credits on which disbursements are suspended			
41	1963	Pakistan	Dacca Water Supply	-	13.2	7.2
42	1963	Pakistan	Chittagong Water Supply	-	7.0	3.7
49	1964	Pakistan	Education	-	4.5	0.8
53	1964	Pakistan	Highways	-	22.5	18.9
83	1966	Pakistan	Foodgrain Storage	-	19.2	0.8
87	1966	Pakistan	Education II	-	13.0	9.0
S-8	1969	Pakistan	Dacca SW Irrigation (Eng.)	-	0.8	0.06
S-10	1970	Pakistan	Irrigation Engineering	-	2.4	1.1
184	1970	Pakistan	Chandpur II Irrigation	-	13.0	12.4
192	1970	Pakistan	Small Industries	-	3.0	2.8
208	1970	Pakistan	Tubewells	-	14.0	13.9
228	1971	Pakistan	Reconstruction	-	25.0	25.0
			Sub-Total	-	137.6	95.66
			Total	599.6	496.8	
			Of Which Has Been Repaid	171.1	0.15	
			Total Now Outstanding	428.5	496.35	
			Amount Sold	22.3		
			Of Which Has Been Repaid	20.8		
			Total Now Held by Bank & IDA	1.5		
				427.0	496.35	
			Total Undisbursed	68.3	174.67	242.97

International Bank for Reconstruction and Development



66 AVENUE D'IENA, PARIS XVII^e. TEL. 720 25 10. TELEX: INBAFRAD 62164 F

PRESS RELEASE

For Immediate Publication

May 26, 1972

SUBJECT: Pakistan Consortium

Governments and institutions concerned with development assistance to Pakistan met in Paris on May 26, 1972 under the chairmanship of the World Bank. The meeting was attended by representatives of the Governments of Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, the United Kingdom, and the United States. The International Monetary Fund, the Asian Development Bank, OECD/DAC, and Switzerland were also represented.

The Pakistan delegation was led by Mr. M.M. Ahmad, Advisor for Foreign Loans and Consortium, Government of Pakistan.

The meeting was convened to conclude an agreement on debt relief and to consider Pakistan's request for new commodity assistance in support of its efforts to increase the pace of development.

The leader of the Pakistan delegation described the performance of the economy in the recent past and outlined the policies adopted for improving the balance of payments and the internal financial situation. He stated that as part of the program for progressively improving the mobilization of domestic and foreign resources and the efficiency of their use for development, Pakistan had recently introduced an exchange reform and adopted other economic and financial measures in support of which the IMF had extended a standby arrangement.

The members of the Consortium welcomed the measures taken by the Pakistan authorities to improve the economic situation and expressed the hope that they would pave the way for sustained progress of the economy.

The member countries of the Consortium reached an understanding with Pakistan to provide short-term debt relief to Pakistan in an amount approximately equivalent to US\$234 million over a period of 26 months ending June 30, 1973. This provides the basis for bilateral agreements or arrangements for which negotiations are to commence shortly.

Members of the Consortium also agreed to provide additional support to Pakistan primarily in the form of commodity aid. Several members were able to indicate at the meeting the magnitude of assistance they were prepared to give, while others expected to do so shortly.

~~Mr. Vatsa~~

RESTRICTED

May 26, 1972

Agreed Minute
Regarding Debt Relief to
Pakistan

1. Following an earlier meeting in Washington on March 1, 1972, representatives of the member countries of the Pakistan Consortium reconvened in Paris on May 26, 1972 under the chairmanship of the International Bank for Reconstruction and Development (the Bank) to consider the request of the Government of Pakistan for debt relief to alleviate its balance of payments difficulties. Representatives of Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom and the United States of America (the participating countries) attended the meeting. The International Monetary Fund, the Asian Development Bank, Norway and Switzerland were also represented.

2. The representatives of Pakistan described the performance of the economy in the recent past and outlined the policies adopted for improving the balance of payments and the internal financial situation. They stated that as part of the program for progressively improving the mobilization of resources, both domestic and foreign, and the efficiency of their use for development, Pakistan had recently introduced an exchange reform and other financial reforms in support of which the I.M.F. has extended a standby arrangement. They emphasized that Pakistan would continue to exercise strict control over the external indebtedness of the country.

3. All present at the meeting took note of the policies adopted and agreed that, with support from the Consortium and other sources, a basis exists for the recovery of the economy and the resumption of development at a pace commensurate with Pakistan's needs.

4. The participating countries stated that their Governments or appropriate government agencies would, without delay, commence negotiations with the Government of Pakistan with a view to the provision of debt relief in accordance with the principles set forth in the following paragraphs. The Government of Pakistan agreed that the principles set forth below were an acceptable basis for such negotiations.

5. The representative of France stated that his Government

- (a) Expresses reservations about the fact that an additional effort is demanded of Pakistan for the settlement of its debt to the benefit of certain creditors and cannot accept such a discrimination between the different interested countries, a discrimination which it considers is economically unjustified and contrary to the principle of equality of treatment as formulated in paragraph 8(f);

He observed in this respect that such a divergence from the usual rule of debt consolidation proportionally to the debt cannot be based on an incomplete examination of the conditions of aid, which does not take into account grants nor the proportion of credits relative to the value of exports paid in cash;

- (b) Invites the World Bank to submit to the creditor countries a plan for the regional distribution of the final debt burden which should take into account the reservations expressed by Pakistan on this subject;
- (c) Accepts, at the request of Pakistan and in order not to create an obstacle to the present debt relief arrangement, to receive, on the basis of the present arrangement, the service on French credits subject to the moratorium; such an arrangement between France and Pakistan, however, can only be a temporary one, in a form yet to be determined, as long as the principle of equality of treatment of all creditors is not respected.

The representative of the Netherlands stated that his Government did not share the views expressed by the representative of France as recorded above.

6. The Government of Pakistan and the participating countries agreed that Pakistan will withdraw its temporary suspension of conversion of certain maturities which has been in effect since May 1, 1971.

7. The representatives of the participating countries agreed that their Governments would arrange for debt relief to be made available to the Government of Pakistan in an aggregate amount approximately equivalent to U.S. \$234 million on payments of principal and interest in arrears or falling due between May 1, 1971 and June 30, 1973 (the consolidation period). The share of each participating country in the total amount of relief to be provided is shown in Annex A to this agreement. These shares have been computed in accordance with the principle that:

- (a) Belgium, France, Germany, Italy and Japan would contribute proportionately to their shares in total debt service payments due to all bilateral creditors in the Consortium;
- (b) Canada, the Netherlands, Sweden, the United Kingdom and the United States of America would contribute according to a formula whereby 20 percent of the total amount of debt relief is shared among the countries listed in (a) above, and 80 percent among all lenders in equal proportion to the debt service due to them.

In this way, practically every creditor will receive payments at least equal to the amount of interest due during the consolidation period.

The participating countries agreed that the method of calculating their shares for the present debt relief will not constitute a precedent for any other debt rescheduling including the long term rescheduling of Pakistan's debt referred to in paragraph 12.

8. Each of the participating countries will enter into a bilateral agreement with Pakistan providing for debt relief in accordance with the following principles:

- (a) The bilateral agreements will make use of rescheduling or refinancing or any similar method at the option of the participating country. If the refinancing method is used, disbursements will be made no later than the date of the relevant payments of principal and interest.
- (b) The debt relief arrangements will, to the extent possible, include amounts in arrears from the period May 1, 1971 to the date on which bilateral agreements take effect.
- (c) The participating countries shall, in consultation with Pakistan, determine what types of credits will be included in the rescheduling or refinancing to meet the shares required, and how payments, which Pakistan will continue to make, should be applied.
- (d) The rate and terms of the interest to be paid on such debt relief will be determined bilaterally between Pakistan and each participating country at the lowest possible rate, but not to exceed a weighted average of 5 percent per annum.
- (e) Repayment by Pakistan of the amounts granted under such debt relief will be made over a period of three years, beginning July 1, 1974, in roughly equal amounts each year.
- (f) The Government of Pakistan will grant each of the participating countries treatment which will be no less favorable than that which may be accorded to any other creditor country for the consolidation of comparable debts.

9. The representatives of Pakistan declared that their Government would:

- (a) Resume payments according to original schedules on all loans and credits not included in the rescheduling;
- (b) Pay any arrears not included in the rescheduling without delay after bilateral agreements are signed;
- (c) Guarantee the free transferability of payments relating to the debts covered by the present provisions; and
- (d) Enter into negotiations as soon as possible with creditors of Pakistan outside the Consortium to complete arrangements for relief on comparable debts on terms no more favorable to such creditors than those contained in this note.

10. The participating countries noted the statement of the representatives of Pakistan that the Government of Pakistan would provide prompt, fair and equitable compensation to the nationals of participating countries whose assets have been nationalized.

11. Noting that the Government of Pakistan is continuing to carry for the time being the liability for servicing all external debt incurred by Pakistan prior to December 1971, the representatives of the participating countries declared that the arrangement set forth in paragraphs 7 and 8 above is based on the amount of liability presently carried by the Government of Pakistan.

12. The representatives of Pakistan expressed the desire of their Government for negotiations with the participating countries leading to a long-term agreement on debt relief to be concluded before the first principal payment falls due on amounts rescheduled under this note. The representatives of the participating countries agreed to propose to their governments that this request be considered favorably taking into account the situation of Pakistan at that time. The participating countries also stated that consideration of any proposal for long-term relief would have to be based on adoption and implementation by Pakistan of a suitable economic program for development.

13. The participating countries and Pakistan will keep the Bank informed as the bilateral agreements referred to in paragraph 8 are being negotiated and concluded; the Bank in turn will from time to time circulate to the participating countries all information so received.

Manfred Blobel
May 26, 1972

(Manfred Blobel)

M.M. Ahmad

26th May '72

(M.M. Ahmad)

European Office
Paris

ESTIMATED SHARES OF PARTICIPATING COUNTRIES

<u>Country</u>	<u>Share</u> US \$ million
Belgium	0.739
Canada	6.510
France	17.978
Germany	62.340
Italy	17.842
Japan	41.995
Netherlands	3.242
Sweden	0.340
United Kingdom	32.445
United States	50.092
	<hr/>
	233.523

lc
May 26, 1972

[Signature]
26th May '72

OFFICE MEMORANDUM

Program Credit

TO: Mr. J. Burke Knapp

FROM: Gregory B. Votaw *GV*

SUBJECT: PAKISTAN - Consortium Pledges of New Commodity Assistance

DATE: June 5, 1972

Attachment 4

1. The consortium meeting of May 26 was not entirely conclusive insofar as commodity aid for FY73 is concerned. This results partly from the meeting's preoccupation with the details of a formal agreement on the \$234 million of interim debt relief which was finally confirmed in an aide memoire which I sent to you a few days back. The other reason for the uncertainty regarding new commodity aid is that the meeting took place very soon after the long-heralded and frequently postponed exchange reform. I think we can reasonably expect supplementary action over and above intimations given in Paris during the next few months.

2. As you will see from Pichler's summary, which I attach, firm pledges amounting to roughly \$84 million were announced at the meeting along with \$24 million reallocated or unblocked out of earlier commitments. In addition, France, Italy and Japan together are expected to offer \$20-25 million. These amounts together with \$50 million proposed from IDA come fairly close to the target of \$180-200 million which the Bank staff proposed to the consortium.

	<u>US\$ million</u>
Total	<u>188</u>
Pledges from 6 consortium countries	84
Unblocking announced by 4 countries	24
New pledges from 3 countries	20
IDA	60

3. There seems to be a fairly general consensus that this volume of aid plus interim debt relief will be sufficient to support the probable requirement of aid financing for imports during the coming year. In fact, our economists and those in the Fund seem to feel that the "gap" has been exaggerated and will not be quite as large as official forecasts now indicate, since those forecasts all incorporate a substantial cushion for contingencies as is appropriate in a situation of so much uncertainty.

Attachment

cc: ~~Mr. McNamara~~ (w/attachment)
~~Mr. Wiehen~~

GBVotaw:jw

OFFICE MEMORANDUM

TO: Gregory B. Votaw

FROM: J. Hanns Pichler

SUBJECT: Pakistan Consortium - New Commodity Aid Pledges

DATE: June 1, 1972

1. Pledges of new commodity assistance (excluding food aid) to Pakistan were given at the Consortium meeting on May 26 by the following member countries:

	(US\$ million) ^{1/}
United States	60.0
United Kingdom	10.4 (+7.8)
Netherlands	5.0 ^{2/} (+8.0)
Canada	5.0 (+5.0)
Norway	1.5 ^{3/}
Belgium	1.7
France	-- (+3.0)
TOTAL	<u>83.6</u> (<u>+23.8</u>)

1/ Figures in brackets indicate additional availability from existing commodity aid pipeline as well as re-allocation or "de-blocking" of earlier commitments.

2/ "New" amount is, in fact, reinstatement of hitherto uncommitted pledge of 1971.

3/ Estimated availability in calendar 1973 out of an average annual total of US\$ 4 million for both Pakistan and Bangladesh under a 5-year (1973-76) program amounting to US\$ 20 million, the greater share of which is expected to be allocated for Bangladesh.

2. An additional indication in the order of US\$ 20 million was given informally by Germany which amount could not be officially pledged because of the German Government's present stalemate on the budget; there is little doubt, however, that those funds would become available in due course.

Mr. Gregory B. Votaw

- 2 -

June 1, 1972

3. Japan, Italy, France were not in a position to make concrete pledges at the meeting, but indicated that additional commitments were under consideration. As a rough estimate these could yield another US\$ 20 to 25 million (merely assuming, based in part on past record and allowing for adjustments in view of the changed overall situation: Japan 10, France 8, Italy 5).

5. Sweden was the only member stating that no new commitment could be expected for the next fiscal year.

6. The above amounts -- including estimates for still outstanding formal pledges -- come to an aggregate total of US\$ 126.6 million in anticipated new bilateral commodity aid commitments. To this, the proposed IDA program credit is to be added bringing the overall potential availability to US\$ 176.6 million or close to the target of US\$ 180 million as contained in the IBRD proposal to the Consortium. (In view of the delay which has occurred since the time of the original proposal, actual disbursements during fiscal 1972/73 are now likely to fall short of the above amount.)

cc: Messrs. Blobel
Wiehen

OFFICE MEMORANDUM

TO: Memorandum for the Record

FROM: J. H. Collier *J. H. Collier*

SUBJECT: Meeting between Pakistan Delegation and Mr. McNamara

DATE: September 29, 1972

1. The Pakistan Delegation met with Mr. McNamara at 2:30 on Tuesday, September 26. The Delegation consisted of Mr. Qamarul Islam, Deputy Chairman of the Planning Commission, Mr. A.G.N. Kazi, Finance Secretary, Mr. Ghulam Ishaq Khan, Governor of the State Bank, and Mr. M. M. Ahmad, Executive Director, IBRD. Present for the Bank were Messrs. McNamara, Knapp, Cargill, Diamond, Collier and Ljungh.

10/2

2. Mr. McNamara opened with a general question on the state of affairs in Pakistan. Mr. Qamarul Islam replied by saying that the situation was what one might expect in a country which had lost a war and a large part of its territory. The national psyche had been hurt. He then went on to review the measures which the Government was taking to make a new start, including the establishment of a new constitution, the measures of economic reform, and generally, the movement of the country along socialist lines. He admitted that there was a temporary economic recession but claimed that the private sector was beginning to recover some confidence, although it would have to adjust to the fact that the period of relentless pursuit of GDP was over and that the private sector could no longer expect to receive the virtually unlimited profits which it had sometimes received in the past.

3. Mr. McNamara then turned to the question of the Bank's future lending program and emphasized the importance he attached to the preparation of the new projects for financing. The Delegation replied that there were a large number of projects requiring financing, and Mr. McNamara said he did not doubt that there were many project needs; what concerned him was that work should be going on to bring them to the point of financing. Mr. Qamarul Islam said that the preparation of projects was going ahead, and he made specific mention of fertilizer, the expansion of power capacity at Tarbela, and SCARP projects. He then raised the question of the scale of lending, and Mr. McNamara said that, in his view, \$50 million per year was the sort of figure he had in mind, and hence, to allow for a slippage factor of around 50 percent, there should be approximately \$75 million worth of projects per year in the pipeline.

cc: Mr. McNamara's Office (2)
Mr. Cargill
Mr. Diamond
Mr. Weiner

JHCollier:ck

President has seen

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (through Mr. William ^WDiamond) DATE: January 2, 1974

FROM: J.H. Collier *J.H. Collier*

SUBJECT: Visit of Sahabzada Yaqub Khan, Ambassador of Pakistan

*C.v. attached
WR*

1. Sahabzada Yaqub Khan, the newly appointed Ambassador of Pakistan to the United States, will be meeting you at 6:30 p.m., Thursday, January 3. As far as we know, this is a courtesy call; we do not know whether the Ambassador has any specific problem which he intends to raise. What follows is therefore general background information on the current state of our relations with Pakistan.

*Casill will attend.
WR*

Lending Program

2. Our lending program for FY74 amounts to US\$110 million, of which US\$50 million consists of IDA credits and US\$60 million Bank loans. It is made up of four projects, two of which will be financed of IDA credits and two by Bank loans. The two IDA credits will be a US\$35 million credit for a flood rehabilitation program and a US\$15 million credit for a new oil terminal at Karachi port. One of the Bank loans, a US\$25 million loan for an industrial investment project to be administered by PICIC, was approved on December 20. The other is a US\$35 million loan for the Multan fertilizer project.

3. The total amount of lending is larger than was planned at the start of this fiscal year by reason of the flood credit. You will recall that, in order to provide some funds to assist Pakistan to cope with the flood, we decided to make a Bank loan instead of an IDA credit for the Multan fertilizer project, thus releasing some IDA funds for a credit for flood rehabilitation. Mr. Chadenet went to Pakistan as "co-leader", with Dr. Victor Umbricht, the Special Representative of the UN Secretary General, of a joint UN-IBRD mission to assess the damage caused by the flood and to make recommendations on the need for assistance. Mr. Chadenet's report is now virtually finished, and we expect to begin discussions with the Pakistanis about the proposed credit on January 14. Mr. Chadenet was impressed with the way in which the Pakistani authorities had been able to cope with the immediate effects of the flood. Even though the first reports about the flood were exaggerated, the damage was nevertheless extensive. The mission estimates that the adverse effect of the flood on the balance of payments this year (July 1973 to June 1974) is likely to be about US\$300 million in reduced exports and increased imports together. It is fortunate for Pakistan that the flood occurred at a time when Pakistan's exports were doing unusually well and her foreign exchange reserves were at a fairly comfortable level.

External Debt

4. Last July, the members of the Pakistan Consortium agreed to provide debt relief amounting to approximately US\$110 million to Pakistan on account of debt service due in FY74. They also agreed (a) that after

President has seen

January 2, 1974

June 30, 1974, they would not look to Pakistan to service debts on account of projects "visibly located in Bangladesh", and (b) that they would be prepared to consider the case for providing long-term debt relief to Pakistan.

5. In September, Bangladesh announced that it would be prepared to enter into discussions with creditors regarding debt which had been incurred on account of projects visibly located in Bangladesh. Creditor countries are therefore now preparing lists of the debts which they consider to be on account of projects visibly located in Bangladesh, and as soon as they have done so, they will begin discussions with the Bangladesh authorities. We have also prepared a list of the Bank loans and IDA credits which we regard as having been incurred on behalf of Bangladesh, which we have given to the Bangladesh authorities. We have also appointed a negotiator, Mr. Douglas Fontein, who plans to visit Bangladesh this month, in order to initiate discussions on our behalf. We hope that Bangladesh will agree to take over the loans and credits as we have listed them. However, we have made it clear to Pakistan that we shall be able to relieve Pakistan of any obligations only as and when Bangladesh actually takes them on. In this respect our position differs from that of the country members of the Consortium. The Pakistani authorities understand this point.

6. As regards (b) above, we are preparing a proposal for long-term debt relief for Pakistan. We hope to have an initial discussion of our proposal ready for discussion by the Consortium members in mid-February, after which we may be able to give Pakistan an indication of the kind of debt relief which the Consortium is prepared to consider.

Economic Mission

7. An economic mission was in Pakistan in November. It has come back with a generally favorable impression. The Government has taken a number of measures to deal with its major problems, low public savings and distorted prices. Exports continue to grow, despite the flood. Investment, particularly in small industry, seems to be reviving. The major remaining problem is that of the Government relations with the private sector. On this point, Prime Minister Bhutto recently announced that he proposes to work out some kind of "charter" which will clarify once and for all the role of the private sector, and, hence, hopefully, restore confidence and encourage investment. However, we have only today learned by cable from our Islamabad office that, as of January 1, 1974, the Government has nationalized all the banks in Pakistan with the exception of foreign banks, which, however, are not to be permitted to open any new branches. It has also acquired the power to take over the management and ownership of any company engaged in marketing petroleum products and any company engaged in maritime shipping. The ordinances providing

January 2, 1974

for these changes provide for compensation but we do not know the basis on which it will be awarded. So far, Pakistan has carefully refrained from nationalizing any foreign investments, and it seems very likely that this will also be the case in the implementation of these new measures. However, they will probably mean a further delay in the revival of confidence by the private sector.

Water Review Mission

8. A mission to which we attach considerable importance will visit Pakistan next month. This mission will study the question of making the best use of Indus waters, a matter which is becoming increasingly important now that water from Tarbela Dam will shortly be available. We expect that the mission will also be able to identify the most important projects in the field of irrigation and water use.

cc: Mr. Cargill
Mr. Diamond

Sahabzada Yaqub Khan

Sahabzada Yaqub Khan, 53, is a former Lt. General of the Pakistan Army. He attended the Staff College in Quetta, the Military College in Paris, and the Imperial Defense College in London. He was commissioned in 1940 and served in World War II in the Middle East. He was appointed Vice-Chief of the General Staff in 1958. He was later Commander of the Armoured Division, then Commandant of the Staff College, and, subsequently, Chief of the General Staff. Mr. Yaqub Khan was appointed Ambassador to France, with concurrent accreditation to Ireland in February 1972.

GNP PER CAP: \$ 130

PAKISTAN - 6 YEAR OPERATIONS AND LENDING PROGRAMS
(BY FISCAL YEAR - AMOUNTS IN \$ MILLIONS)

OPERATIONS PROGRAM		1974	1975	1976	1977	1978	1979
-----		----	----	----	----	----	----
4-PAK-AC-07	AGRIC CREDIT IV			20.0			
4-PAK-AC-08	AGRIC.CREDIT-ADB V						25.0
4-PAK-AD-02	RURAL DEVELOPMENT I			15.0			
4-PAK-AD-03	RURAL DEVELOPMENT II						20.0
4-PAK-AI-27	IRRIGATION-GROUNDWATER			20.0			
4-PAK-AI-28	IRRIG.UNIDENTIFIED				15.0		
4-PAK-AL-01	LIVESTOCK I			10.0			
4-PAK-AN-03	SEEDS		10.0				
4-PAK-AX-01	AGRIC.UNIDENTIFIED I					25.0	
4-PAK-CC-03	TELECOMMUNICATIONS III		32.5				
4-PAK-CC-04	COMMUNICATIONS IV					25.0	
4-PAK-DD-10	DFC-INDUSTR.INVESTMENT	IBRD	25.0				
4-PAK-DD-11	IDBP II (DFC)	IDA		30.0			
4-PAK-DD-12	PICIC X (DFC)	IBRD		40.0			
4-PAK-DD-13	DFC-IDBP III	IDA			30.0		
4-PAK-DD-15	DFC-PICIC XI	IDA			40.0		
4-PAK-DD-16	DFC-PICIC XII	IDA					40.0
4-PAK-EE-07	EDUCATION II			10.0			
4-PAK-IC-04	MULTAN FERTILIZER	IBRD	35.0				
4-PAK-IX-01	INDUSTRY UNIDENTIFIED I	IBRD				30.0	
4-PAK-MI-05	FLOOD REHAB PROGR. CR.	IDA	35.0				
4-PAK-PX-01	FWR-UNIDENTIFIED I	IBRD		30.0			
4-PAK-PX-02	FWR UNIDENTIFIED II	IDA				30.0	
4-PAK-TH-05	HIGHWAYS III			10.0			
4-PAK-TH-06	ROAD IMPROVEMENT II	IDA			10.0		
4-PAK-TH-10	ROAD IMPROVEMENT III	IDA					15.0
4-PAK-TL-05	PIPELINES-SNGPL IV	IBRD		20.0			
4-PAK-TP-07	KARACHI PORT IV-OIL TMNL	IDA	14.8				
4-PAK-TP-08	KARACHI PORTS V	IDA		25.0			
4-PAK-TR-11	RAILWAYS VIII	IBRD		20.0			
4-PAK-WW-04	LAHORE W/SEWERAGE II	IDA		5.0			
4-PAK-XX-01	UNALLOCATED I	IDA				30.0	
4-PAK-XX-03	UNALLOCATED III	IBRD					30.0

POPULATION: 62.7M

TABLE IVA

PAGE 60

GNP PER CAP: \$ 130

PAKISTAN - 6 YEAR OPERATIONS AND LENDING PROGRAMS
(BY FISCAL YEAR - AMOUNTS IN \$ MILLIONS)

OPERATIONS PROGRAM

1974 1975 1976 1977 1978 1979

	1964-68	1969-73	1974-78		1974	1975	1976	1977	1978	1979
OPERATIONS PROGRAM										
AMOUNTS				AMOUNTS						
IBRD	200.0			IBRD	60.0	60.0	50.0		30.0	30.0
IDA	442.3			IDA	49.8	87.5	100.0	125.0	80.0	100.0
TOTAL	642.3			TOTAL	109.8	147.5	150.0	125.0	110.0	130.0
NUMBERS				NUMBERS						
IBRD	7.00			IBRD	2.00	2.00	2.00		1.00	1.00
IDA	21.00			IDA	2.00	5.00	6.00	5.00	3.00	4.00
TOTAL	28.00			TOTAL	4.00	7.00	8.00	5.00	4.00	5.00
LENDING PROGRAM (10/17/73)										
AMOUNTS				AMOUNTS						
IBRD	125.0			IBRD	25.0	25.0	25.0	25.0	25.0	25.0
IDA	400.0			IDA	50.0	81.0	81.0	81.0	107.0	90.0
TOTAL	525.0			TOTAL	75.0	106.0	106.0	106.0	132.0	115.0
NUMBERS				NUMBERS						
IBRD				IBRD						
IDA				IDA						
TOTAL	22.00			TOTAL	4.00	5.00	5.00	4.00	4.00	4.00

AREA
806,330 km²POPULATION
63.6 million (mid-1972)DENSITY
79 Per km²
208 Per km² of arable land

SOCIAL INDICATORS

	PAKISTAN /a		Reference Countries		
	1967	1970	India 1970	Turkey 1970	France 1970
GNP PER CAPITA US\$ (ATLAS BASIS) /1	81	129	110	310	3,100
DEMOGRAPHIC					
Crude birth rate (per thousand)	51	43	38 /b	40	17
Crude death rate (per thousand)	24	16	16 /b	13	12
Infant mortality rate (per thousand live births)	40	115	120-140 /b	153 /c	15
Life expectancy at birth (years)	49	52	49	55	72
Gross reproduction rate /2	..	3.7	2.9	2.9	1.2
Population growth rate /3	1.7	2.8	2.3	2.5	0.9 /d
Population growth rate - urban	4.8	4.6	3.5	4.1	2.4 /e
Age structure (percent)					
0-14	42	45	42	42	24
15-64	53	51	55	54	63
65 and over	5	4	3	4	13
Dependency ratio /4	1.6	1.9	1.2 /f	1.0 /g	0.9 /h
Urban population as percent of total	22	28	20	38	70 /e
Family planning: No. of acceptors cumulative (thous.)	..	..	..	282	..
No. of users (% of married women)	..	..	..	4.4	..
EMPLOYMENT					
Total labor force (thousands)	13,585	17,616	221,000 /i	15,830	20,439 /j
Percentage employed in agriculture	60	55	71 /b	66	15 /j
Percentage unemployed	..	..	..	6.0	2.1 /j
INCOME DISTRIBUTION					
Percent of national income received by highest 5%	..	..	..	..	..
Percent of national income received by highest 20%	..	..	..	..	..
Percent of national income received by lowest 20%	..	..	..	..	..
Percent of national income received by lowest 40%	..	..	..	..	..
DISTRIBUTION OF LAND OWNERSHIP					
% owned by top 10% of owners	46.2	..	..	..	..
% owned by smallest 10% of owners	0.4	..	..	..	..
HEALTH AND NUTRITION					
Population per physician	7,490	4,500	4,000 /b	2,220	750
Population per nursing person	14,930	9,290	4,150 /k	1,630	260
Population per hospital bed	2,080	2,060	1,830 /l	490	110
Per capita calorie supply as % of requirements /5	..	..	84 /l	110 /m	120
Per capita protein supply, total (grams per day) /6	..	..	48 /l	78 /m	103
Of which, animal and pulse	..	..	15 /l	22 /m	66
Death rate 1-4 years /7	..	..	..	..	0.9
EDUCATION					
Adjusted /8 primary school enrollment ratio	28 /n	44 /n	79 /n	77 /i	120 /h
Adjusted /8 secondary school enrollment ratio	15 /o	17 /o	28 /n	25 /q	70 /h
Years of schooling provided, first and second level	10 /p	10 /p	12	13	12
Vocational enrollment as % of sec. school enrollment	1.4	1.6	6 /r	14	23 /h
Adult literacy rate %	17	..	36 /b/s	46 /r	..
HOUSING					
Average No. of persons per room (urban)	..	..	..	2.4	0.9 /i
Percent of occupied units without piped water	..	..	..	..	7 /i
Access to electricity (as % of total population)	..	..	..	37	99 /i
Percent of rural population connected to electricity	..	..	..	..	98 /i
CONSUMPTION					
Radio receivers per 1000 population	6 /t	22 /t	21	87	314
Passenger cars per 1000 population	1.4 /u	2.1 /u/v	1.1	4.0	253.0 /h
Electric power consumption (kwh p.c.)	25 /w	112 /w	100 /h	245	2,781
Newsprint consumption p.c. kg per year	..	..	0.3	2.0	12.0

Notes: Figures refer either to the latest periods or to the latest years. Latest periods refer in principle to the years 1955-60 or 1966-70; the latest years in principle to 1960 and 1970. Only significantly different periods or years are footnoted separately.

/1 The Per Capita GNP estimates for years other than 1960 are at market prices, calculated by the same conversion technique as the 1972 World Bank Atlas.

/2 Average number of daughters per woman of reproductive age.

/3 Population growth rates are for the decades ending in 1960 and 1970.

/4 Ratio of under 15 and 65 and over age brackets to those in labor force bracket of ages 15 through 64.

/5 FAO reference standards represent physiological requirements for normal activity and health, taking

account of environmental temperature, body weights, and distribution by age and sex of national populations.

/6 Protein standards (requirements) for all countries as established by USDA Economic Research Service provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are somewhat lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

/7 Some studies have suggested that crude death rates of children ages 1 through 4 may be used as a first approximation index of malnutrition.

/8 Percentage enrolled of corresponding population of school age as defined for each country.

/a West Pakistan only; /b 1971 estimate; /c 1967; /d 1963-70; /e Over 2,000 population; /f 1971, ratio of population under 15 and 65 and over to labor force in age group 15-59; /g Ratio of population under 15 and 65 and over to total labor force; /h 1969; /i 1971, A.I.D. estimate of labor force in age group 15-59. IBERD report gives a figure of 180.4 million based on the 1971 population census. The difference is due to changes in the definition of a worker. In the 1971 census persons were classified only on the basis of their main activity, irrespective of whether or not they did any economic work; /j 1968; /k 1966; /l 1968/69; /m 1964/66; /n Primary school level grade 1 through 5; /o Secondary school level grade 6 through 10; /p Up to matriculate (10th grade); /q Estimate which includes average students; /r 1965; /s Population of 10 years and over based on 1% sample data of 1971; /t Data relate to radio licenses issued; /u Data based on number of motor cars, jeeps, station wagons and motor taxis registered; /v 1968, based on IBERD population estimate of 57 million; /w Data relate to electricity generated and hence include station use and transmission losses also.

PAKISTAN - ECONOMIC DEVELOPMENT DATA
(Amounts in millions of U.S. dollars)

	Actual			Projected			1960-	1965 -	1970 -	1973 -	1960	1970	1973
	1960	1965	1970	1973	1975	1978	1965	1970	1975	1978			
NATIONAL ACCOUNTS													
	3-Year Average at 1967-1969						Prices & Exchange Rates		Average Annual Growth Rates		As Percent of GNP		
Gross Domestic Product	4877.6	6660.6	9067.2	10194.3	11476.7	12059.0	6.4	6.4	4.8	6.7	98.6	100.8	97.9
Gains from Terms of Trade (+)	69.1	101.9	-71.8	204.9	233.5	308.6					1.4	-0.8	2.1
Gross Domestic Income	4946.7	6762.5	8995.4	10399.2	11709.9	12367.6	6.5	5.9	5.4	6.6	100.0	100.0	100.0
Import (incl. NFS)	621.0	1067.3	1016.0	1173.0	1395.6	1661.6	11.4	-1.0	6.5	7.2	12.6	11.3	11.6
Exports " (import capacity)	323.9	529.4	679.9	828.2	971.7	1331.2	10.3	5.1	7.4	9.9	6.5	7.6	9.3
Resource Gap	297.1	537.9	336.1	344.8	423.9	330.4					6.0	3.7	2.3
Consumption Expenditures	4423.9	5946.9	7943.7	9579.4	10683.0	12514.2	6.1	6.0	6.1	5.4	89.4	88.3	87.1
Investment " (incl. stocks)	819.9	1353.5	1387.8	1164.4	1450.2	2183.8	10.6	0.5	0.9	13.4	16.6	15.4	15.2
Domestic Savings	522.8	815.6	1051.7	819.8	1026.9	1853.4	9.3	5.2	-0.8	19.6	10.6	11.7	12.9
National Savings	516.9	788.8	1009.3	884.9	1088.7	1912.6	8.8	5.7	1.5	17.9	10.4	11.2	13.3

MERCHANDISE TRADE													
Annual Data at Current Prices													
As Percent of Total													
Imports													
Capital Goods	..	..	..	..	..	..	
Fuels and intermediate goods	..	..	..	..	..	..	
Consumption Goods	..	..	..	..	..	..	
Total Merch. Imports (cif)	488.0	804.7	772.7	960.9	1155.2	1481.7	10.5	-0.8	8.4	9.0	100.0	100.0	100.0
Exports													
Primary Products	..	..	..	..	..	..	
Manufactured Goods	..	..	..	..	..	..	
Total Merch. Exports (fob)	255.7	382.4	544.8	650.0	856.3	1250.2	8.4	7.3	9.5	14.0	100.0	100.0	100.0
Tourism and Border Trade	..	..	..	..	..	..	
Merchandise Trade Indices													
Average 1967-69 = 100													
Export Price Index	91.20	94.06	87.08	125.15	131.49	141.60	0.62	-1.53	8.6	2.5			
Import Price Index	104.67	70.68	99.75	95.09	99.90	107.58	-7.55	7.13	0.0	2.5			
Terms of Trade Index	87.13	133.09	87.30	131.62	131.62	131.62	8.84	-8.08	8.5	0.0			
Exports Volume Index	57.03	82.70	127.26	105.65	132.52	179.60	7.72	9.00	0.81	11.20			

VALUE ADDED BY SECTOR													
Annual Data at 1967-69 Prices and Exchange Rates													
Average Annual Growth Rates													
As Percent of Total													
Agriculture	2030	2442	3217	3407			3.7	5.6			45.3	38.2	
Industry and Mining 4/	674	1249	1796	1996			13.1	7.6			15.0	21.3	
Service	1778	2523	3409	3874			7.3	6.2			39.7	40.5	
Total	4482	6214	8422	9277			6.7	6.2			100.0	100.0	
PUBLIC FINANCE 3/													
(Central Government)													
Current Receipts	..	..	1154	1744							..	12.2	
Current Expenditures	..	..	928	1134							..	9.8	
Budgetary Savings	..	..	226	610							..	19.6	
Other Public Sector 1/	..	..	-90	-272							..	-0.9	
Public Sector Investment 2/	..	..	642	584							..	6.8	

CURRENT EXPENDITURE DETAILS	Actual					DETAIL ON	US \$ million	
	19	19	19	19	19		At end 19	P and ER
As % Total Current Expend.						PUBLIC SECTOR	First Plan	% of Total
Education	INVESTMENT PROGRAM	(19 /	- 19 / /)
Other Social Services	Social Sectors	..	..
Agriculture	Agriculture	..	..
Other Economic Services	Industry and Mining	..	..
Administration and Defense	Power	..	..
Other	Transport and communications	..	..
Total Current Expenditures						Other	..	..
						Total Expenditures	..	..

SELECTED INDICATORS	1960-	1965-	1970-	1973-	FINANCING
	1965	1970	1975	1978	
(Calculated from 3-year averaged data)					
Average ICOR	3.0	2.8	1.9	2.0	Public Sector Savings
Import Elasticity	2.0	-0.15	2.6	0.5	Program aid counterpart
Marginal Domestic Savings Rate	16.1	10.6	-0.9	20.0	Foreign Project Aid
Marginal National Savings Rate	15.2	9.9	1.8	20.0	Total Financing

LABOR FORCE AND OUTPUT PER WORKER	Total Labor Force					Value Added Per Worker (1967-69 Prices & Exc. Rates)					
	In Millions		% of Total		1960-70	In U.S. Dollars		Percent of Average		1960-70	
	1960	1970	1960	1970	Growth Rate	1960	1970	1960	1970	Growth Rate	
Agriculture	8.3	9.6	59.6	54.8	1.5	244	335	74.8	70.1	3.2	
Industry	2.2	3.4	16.0	19.4	4.3	306	528	95.0	110.4	5.6	
Service	3.1	4.2	22.2	23.6	3.0	574	812	178.2	169.8	3.5	
Total	13.6	17.2	97.8	97.8	2.3	322	478	100.0	100.0	4.0	
Unallocated	0.3	0.4	2.2	2.2	-	-	-	-	-	-	
Total	13.9	17.6	100.0	100.0	2.3	322	478	100.0	100.0	4.0	
.. not applicable	- nil or negligible										
.. not available	-- less than half the smallest unit shown										

1/ Savings of the provincial Government and autonomous bodies.
 2/ Combined investment of Central and provincial Governments and autonomous bodies.
 3/ At current prices and constant exchange rates of Rs. 4.762 per US \$. Data for 1972/73 are budget estimates.
 4/ Includes manufacturing, mining and quarrying, construction, electricity, gas, water and sanitary services.

BALANCE OF PAYMENTS, EXTERNAL ASSISTANCE AND DEBT
(amounts in millions of U.S. dollars at current prices)

	Actual ^{/1}				Estimated ^{/2} 1972/73	Projected ^{/3}				Avg. Annual Growth Rate 1974-1978		
	1969/70	1970/71	1971/72	1972/73		1973/74	1974/75	1975/76	1976/77		1977/78	1978/79
SUMMARY BALANCE OF PAYMENTS												
Exports (incl. NFS)					931	1,200	1,271	1,392	1,502	1,627	3,476	6.2
Imports (incl. NFS)					1,018	1,600	1,785	1,961	2,166	2,397	6,232	8.4
Resource Balance (X-M)					-87	-400	-514	-569	-664	-770	-2,756	
Interest (net) ^{/2}					-98	-113	-126 ^{/3}	-131 ^{/3}	-134 ^{/3}	-136 ^{/3}	-167 ^{/3}	4.7
Direct Investment Income					-20	-20	-21	-22	-23	-23	-32	3.6
Workers' Remittance					130	130	136	142	147	152	285	3.8
Current Transfers (net)					31	30	30	30	30	30	30	-
Balance on Current Accounts					-44	-373	-495	-550	-644	-747	-2,720	
Private Direct Investment					10	10	10	10	10	10	10	-
Official Capital Grants					21	20	20	20	20	20	20	-
Public M&T Loans												
Disbursements					344	410	400	400	400	400	400	10.9
-Repayments ^{/2}					-89	-162	-272 ^{/3}	-286 ^{/3}	-300 ^{/3}	-346 ^{/3}	-277 ^{/3}	
Net Disbursements					255	248	128	114	100	154	123	
Other M&T Loans												
Disbursements					10	10	10	10	10	10	10	-
-Repayments					-	-	-	-	-	-	-	-
Net Disbursements					10	10	10	10	10	10	10	-
Capital Transactions n.e.i.					-6							
Change in Net Reserve					+152							
GRANT AND LOAN COMMITMENTS												
Official Grants & Grant-like					21							
Public M&T Loans												
IBRD					-							
IDA					95							
Other					-							
Other Multilateral					39							
Governments					346							
Suppliers					-							
Financial Institutions					-							
Bonds					-							
Public Loans n.e.i.					-							
Total Public M&T Loans					501							
EXTERNAL DEBT												
	Actual Debt Outstanding on Dec. 31, 1972 ^{/5}											
		Disbursed Only		Percent								
World Bank		328		8.4								
IDA		365		9.4								
Other Multilateral		11		0.3								
Commitments		2,891		73.8								
Others		241		6.2								
Financial Institutions		76		1.9								
Bonds		-		-								
Public Debts n.e.i.		-		-								
Total Public M&T Debt		3,913		100.0								
Other M&T Debts												
Short-term Debt (disb. only)												

	Actual ^{/1}	Estimated
	1972/73	1973
DEBT AND DEBT SERVICE		
Public Debt Out. & Disbursed ^{/4}	4,151	4,151
Interest on Public Debt	98	98
Repayments on Public Debt ^{/2}	89	89
Total Public Debt Service	187	187
Other Debt Service (net)	10	10
Total Debt Service (net)	197	197
Burden on Export Earnings (%)		
Public Debt Service	17.6	17.6
Total Debt Service	18.6	18.6
TDS+Direct Invest. Inc.	21.4	21.4
Average Terms of Public Debt		
Int. as % Prior Year DO&D	2.6	2.6
Amort. as % Prior Year DO&D	2.4	2.4
IBRD Debt Out. & Disbursed	316.0	316.0
" as % Public Debt O&D	7.6	7.6
" as % Public Debt Service	29.0	29.0
IDA Debt Out. & Disbursed	443.1	443.1
" as % Public Debt O&D	10.6	10.6
" as % Public Debt Service	2.4	2.4

.. not applicable
... not available
... not available separately
but included in total

e staff estimate
- nil or negligible
-- less than half the
smallest unit shown

^{/1} Available data include Bangladesh and it would be misleading to show these.
^{/2} Modified by short-term debt relief and rescheduling.
^{/3} Reduced by 15 percent on account of projects visibly located in Bangladesh.

^{/4} End of Period.
^{/5} Includes debt contracted on account of Bangladesh prior to December 1971.

OFFICE MEMORANDUM

TO: Mr. William Diamond

DATE: January 3, 1974

FROM: Gilbert Brown *GB*SUBJECT: PAKISTAN: Nationalization of Banks, Shipping and Petroleum

On January 1, the Government of Pakistan nationalized all domestic commercial banks, maritime shipping and marketing of petroleum products. Foreign banks were not nationalized, but will not be permitted to establish additional branches. Foreign shares in other enterprises were not nationalized, but it is our understanding that the petroleum marketing firms were solely Pakistani, and foreign ownership of banks and shipping companies must have been small or nil. The nationalization of banks, while a major step, was not much of a surprise. The nationalization of shipping was not a major step, since the government-owned National Shipping Corporation (NSC) dominated the field. The nationalization of petroleum marketing is harder to evaluate, but involves only two private companies set up a decade ago to transfer this activity from foreign to Pakistani ownership. This action may create further private sector doubts about their ability to trust the Government's word, but it may also "clear the ground" for the Government's promised "charter" to the private sector by completing the Government's planned nationalization.

The Pakistan People's Party Manifesto, issued prior to the 1970 elections but still referred to as a party guideline, said that banks would be nationalized. A decision not to nationalize them in early 1972 was made after an internal debate won by those who said the public interest could be better served by social controls over credit allocations than by nationalization. In effect, the banks were then told that they were on trial to determine whether they should be nationalized. The tie-in between banks and major industrialists and traders under previous regimes had been much criticized as a major factor in limiting large-scale entrepreneurship to the 22 families.

Prime Minister Bhutto in two speeches to business audiences in November stated his intention to hold discussions with private sector representatives and to develop a private sector "charter" by early 1974. In private conversations during November, he also indicated his concern about the importance of increasing private sector activity, and said that he was at work on his proposals. Thus, the new nationalizations are likely part of that strategy. For more than a year the Prime Minister has also been saying that there would be no more nationalization of industry during his present term in office, with nationalization in the past year of copper mining and several other activities justified by cabinet members on the grounds that they were not "industry". The same statement could be made about the January first nationalizations. However, the Prime Minister can also say that these actions were necessary to give the Government the control over credit and trade (including smuggling) that it needed to protect the public interest while permitting private enterprise to function in the rest of the economy.

The new managing directors of nationalized banks are either already senior officials in Government or in government enterprises, or are experienced private bankers. Some of these appointments are undoubtedly of a stopgap nature until permanent full-time managing directors can be found. While no organizational changes have yet been announced, it is also likely that an overall bank holding company will be formed, along with a single shipping company and a single petroleum marketing organization.

Jamil Nishtar, now managing director of the Government-owned National Bank of Pakistan, has also assumed the same position for the Bank of Bahawalpur and for Premier Bank. Mustafa Ismail, formerly President Muslim Commercial Bank, is now managing director for Habib Bank Limited, for Habib Bank (Overseas), and Standard Bank. M.A.O. Yousafi, formerly managing director Australasia Bank, is now managing director United Bank Limited. Iradat Husain, formerly Senior Vice President, United Bank Limited, is now managing director Muslim Commercial Bank. E. A. Garda, formerly with Muslim Commercial Bank, is now managing director Commerce Bank Limited. Iqbal Rizvi, formerly Senior Vice President Habib Bank, is now managing director Australasia Bank. S. U. Deshmukh, formerly manager State Bank Peshawar, is now managing director Sarhad Bank Limited. Dr. Moinuddin Baqai is now managing director of Lahore Commercial Bank and of the Punjab Cooperative Bank, in addition to continuing his positions with the Ministry of Finance, Planning and Development. Siraj Yousuf, formerly Joint Secretary in the Ministry of Finance, is now managing director of Pakistan Bank Limited.

The assets of the two nationalized petroleum marketing companies, Dawood Petroleum Limited and Pakistan National Oils Limited, were wholly owned by Pakistanis. Major General J. A. Faruqi, Chairman of the Oil and Gas Development Corporation, has been appointed managing director for Dawood Petroleum. Ahmed Allahwala, managing director of the Pakistan Refinery, has been appointed managing director for Pakistan National Oils Limited. Both appointments are in addition to their present duties.

Commander Akhtar Hanif, managing director of the National Shipping Corporation, has been made managing director for the nine newly taken over shipping companies as well.

cc: Mr. H. Collier
Mr. J. Baneth
Mr. H. Pilvin

31

OFFICE MEMORANDUM

TO: Files

DATE: October 8, 1974

FROM: J. H. Collier *J. H. Collier*SUBJECT: PAKISTAN - The Minister of Finance's Meeting with
Mr. McNamara

- 10/8
1. Dr. Mubashir Hasan, Minister of Finance of Pakistan, accompanied by Mr. M. Mufti, Economic Minister, Pakistan Embassy, met Mr. McNamara at 3:30 p.m. on Thursday, October 3, 1974. Messrs. Knapp, Weiner, Diamond, Baneth and Collier were also present.
 2. Dr. Hasan began with Tarbela. He briefly recounted the events of the last few weeks and produced some pictures of the damage. He said the government's priorities were first, that there should be a permanent solution, secondly, that there should be a quick solution and thirdly, that there should be as little interference as possible with the supply of irrigation water. He had talked with Mr. Chadenet by telephone and he agreed that, with regard to the next attempt at filling the reservoir, they should err on the side of caution. After all, the dam had only been tested up to about 1350 feet and there were questions about seepage; therefore they should not fill on a rising curve.
 3. Dr. Hasan said the government was heavily insured and he thought they would be financially covered in the long run. However, they would need assistance for the repairs from the Bank and the Consortium. Mr. McNamara replied that we would do everything we could to help. He added that the matter was complicated, not only technically, but also because of the various outstanding contractors' claims. It would make it easier to request assistance from the countries involved if these matters could be cleaned up. Dr. Hasan commented that this question had not yet reached his level.
 4. Dr. Hasan then said he wished to make another point which was that he had been disturbed to discover that it seemed to be generally believed that Pakistan was receiving a vast amount of assistance from OPEC countries and this was not the case. He referred to the \$580 million loan from Iran but then said there had been stories about other large sums which were not true at all. They had received some "promises" from Abu Dhabi but this amount would not exceed \$100 million. Moreover, continued Dr. Hasan, the balance of payments was not going to be as good as they had hoped. They would have to import much more wheat than they had previously expected and they would have to pay much more for edible oils.
 5. Mr. McNamara then said he would like to raise a point concerning future IBRD lending. Assuming able direction of economic affairs in Pakistan plus some stimulus to the private sector, he thought that the volume of IBRD lending could be increased provided there were sufficient projects. However, it was his impression that the pipeline

October 8, 1974

was thin and he suggested that Dr. Hasan should insure that more attention was given to project preparation. He did not have any particular projects in mind but the question of increased fertilizer production obviously was important. He asked about Pakistan's plans for increasing fertilizer production. Dr. Hasan said that present production was about 350,000 nutrient tons and that they planned to increase it to 900,000 tons by 1982.

(Actually, Dr. Hasan inadvertently added a zero and spoke in terms of millions of tons; this might charitably be ascribed to the Pakistani habit of thinking in terms of crores and lakhs.) He referred to the Fauji project and the possibility of doubling the capacity of Dawood-Hercules and said there were five plants altogether under consideration.

Distribution: Mr. McNamara (original + 1)
Mr. Knapp
Mr. Weiner
Mr. Diamond
Mr. Baneth

JHCollier/mc

Pal

II. Biographical Sketches of Senior Delegation Members

1. Mubashir Hasan, Minister of Finance, Planning and Development

Dr. Mubashir Hasan is 52 years old. A civil engineer by training, he received a Bachelor's Degree from the Engineering College of Lahore in 1942, a Master's Degree from Columbia University in New York in 1948, and a Ph.D. Degree from State University of Iowa in 1954, all in civil engineering.

He is a founding member of the Pakistan People's Party, the first convention of which was held at his residence in Lahore. He was active in the movement which dethroned Ayub Khan in 1969. In 1968, Mr. Z.A. Bhutto and Dr. Hasan were arrested together in the latter's residence on Ayub Khan's orders.

He was elected a Member of the National Assembly from the North Lahore constituency by an overwhelming majority in the general elections of December 1970. Dr. Hasan is a high official of Pakistan People's Party. He is a member of the Principles Committee and Center Committee; he is the Party's Finance Secretary, and is the President of its Lahore Branch.

From time to time, there have been rumors that Dr. Hasan would be replaced by someone more to the right, in order to give some assurance to the private sector. However, the re-organization of the senior officials in the Finance Ministry last year, and the incident in which Dr. Hasan was able to prevent the appointment of Mahbub ul Haq as an economic adviser to Bhutto, reflect the strength of his position. Bhutto, who is from Sind, depends on Dr. Hasan for political support in the Punjab.

2. A.G.N. Kazi, Secretary General for Finance and Economic Coordination

Mr. Kazi is 55. He is an M.Sc. in applied mathematics and, in 1943, he took the Indian Civil Service Examination and was posted to the Bihar/Orisa Province in India. On independence, Mr. Kazi opted for Pakistan and has since served in many capacities, including Finance Secretary, Sind, and Finance Secretary, West Pakistan. He was Economic Minister for Pakistan at Washington from 1962 to 1965. On return, he served the former West Pakistan Government as Additional Chief Secretary, Planning and Development, and was later appointed Chairman of WAPDA. He joined the Central Secretariat on June 6, 1969, as Secretary, Ministry of Industries and Natural Resources, and became Secretary, Ministry of Finance on September 8, 1970.

In August 1973, Mr. Kazi was given the newly created post of Secretary General, Finance and Economic Coordination. He thus has responsibility for all three parts of the Ministry, i.e., Finance, Planning, and Economic Affairs. He is said to be one of the fairly small number of senior civil servants whom the new politicians seem to trust.

3. Ghulam Ishaq Khan, Governor, State Bank of Pakistan

Ghulam Ishaq Khan, 59 years old, studied chemistry and botany at Punjab University, graduating around 1939 with a B.Sc. Degree.

From 1940 through 1955, he was a civil servant with the NWFP civil service and served in various capacities. On partition from India in 1947, he was appointed as Secretary to the Chief Minister, and in 1949, he became the Development Secretary.

On integration of the Provinces in 1955, he was appointed Secretary, Development and Irrigation, West Pakistan. Since 1960, he has been a member of the Syndicate and Senate of Peshawar University in his home province (NWFP). He was appointed a member of the Water and Power Development Authority (WAPDA) in 1958, and in February 1958 became the Chairman. In 1966, he was appointed the Secretary, Ministry of Finance, Government of Pakistan. He relinquished this post in 1970 when President Yahya Khan appointed him as Secretary, Cabinet Division, in the President's Secretariat. On December 21, 1971, Mr. Z.A. Bhutto, the new President of Pakistan, appointed him as the Governor of the State Bank of Pakistan.

Mr. Ghulam Ishaq is a forthright, honest and efficient administrator. He is conservative in his economic policies and favors limiting government expenditure, even at the expense of development.