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INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: February 7, 1975

FROM: Mervyn L. Weiner *[signature]*

SUBJECT: PAKISTAN: Meeting with Prime Minister Bhutto

At the invitation of the Prime Minister, Mr. McNamara met with him at Blair House at 6 p.m. on the evening of February 4. The Minister of State for Foreign Affairs, the Secretary of Finance (Mr. A.G.N. Kazi), the Ambassador, the Economic Minister (Mr. Mufti) and the writer were also present. The meeting lasted about 30 minutes.

In response to Mr. McNamara's opening expression of interest to be of all possible help to Pakistan, especially in the further development of agriculture and the Indus Basin, Prime Minister Bhutto reviewed briefly the major problems that confronted him since taking office - devaluation, the separation of Bangladesh, renegotiation of external debt, major floods, the Tarbela mishap and drought. He noted that they had all been addressed forthrightly. He referred to the emphasis being given to rural development in Pakistan's development program, and the efforts being made and planned to reduce water logging and salinity and bring electricity to the countryside.

Mr. McNamara enquired about Pakistan's current external finances and the support that Pakistan has been and expects to receive from OPEC. Mr. Bhutto said that financial support from Iran, the United Arab Emirates and Saudia Arabia has enabled Pakistan to maintain an adequate level of food imports; but, in elaboration, Mr. Kazi said that there is still a US$800 million gap for the current fiscal year and that, until Tarbela waters are available and the depression in external demand for textiles ends, Pakistan will need special program assistance. Mr. McNamara noted that this estimate differed radically from our information and invited Mr. Kazi to discuss the details when he met with me the following morning. (In subsequent meetings it became clear that the difference reflected only the definition of the deficit, not the underlying estimates. Making due allowance for IMF and OPEC balance of payments assistance, Mr. Kazi's "uncovered deficit" amounts to US$200 million. The corresponding regional staff figure is less than $50 million, the difference being attributed to unexplained invisibles transactions, which may include military goods for which we have no details. A separate note is being prepared proposing a reply to GOP's request for an FY75 program credit.)

2/10

Mr. McNamara outlined for Mr. Bhutto his perception of the difficulties many developing countries, including Pakistan, are facing as their export markets shrink with European and North American economic contraction and as the prices of a number of primary export commodities soften. In current circumstances, political support for concessional finance to relieve the external burden on the poorest Asian countries is also softening. He hoped that a "third window" might help alleviate the worst of these problems, but until this happened there seemed to be little alternative to "batten down the hatches" and budget austerely, both domestically and in foreign exchange.

Files February 7, 1975

Acknowledging these unpleasant prospects, Mr. Bhutto observed that it was nonetheless hard to cut back when there was no fat to begin with.

Mr. Bhutto then enquired about the response of OPEC countries to Mr. McNamara's efforts to mobilize new resources for expanded Bank Group activities. Mr. McNamara said that Iran had been the most forthcoming of the oil countries to date, but he was hopeful that Saudia Arabia, Kuwait and Abu Dhabi would soon also become important sources of funds. He noted that while Venezuela was rapidly becoming an important supplier of funds, most of their assistance to developing countries would probably be confined to Latin America.

During the general discussion about the problems of rising import prices and the need for expanded agricultural production in the developing countries, reference was made by Mr. Bhutto to U.S. Steel having withdrawn from the planned Fauji fertilizer project, making it necessary for the sponsors to find a new technical partner. Mr. McNamara emphasized the importance he gave to adequate access to fertilizer in South Asia and the attractiveness of increasing domestic supply capacity where local feedstock made the economics attractive. He said that we would do whatever we could to help Pakistan find the funds for well-conceived fertilizer projects. (The following morning, in a meeting with Messrs. Kazi, Mufti, Collier and Brown, it was confirmed that the Fauji project was part of the fertilizer program we had reviewed when evaluating the Multan project, that we had been kept fully in the picture about the Fauji project (particularly through IFC which has been in close touch with the Fauji project from an early stage) and that a team from Agrico (Texas) would be visiting Pakistan shortly to consider becoming the new technical partners on the project. The next steps would depend on the outcome of that visit, of which we would be kept informed. Mr. Kazi noted that if the Fauji Foundation could not put the project together within the time allotted to it by the Government, the Government would take it over and proceed with it as a public sector project in view of its great importance. Under either circumstance, they would keep us informed and expected to seek Bank Group support in the order of US$50 million).

cc: Mr. McNamara
Mr. Knapp
Messrs. Diamond/Collier
Mr. van der Meer

MLWeiner/mcw

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (through Mr. J. Burke Knapp)

DATE: February 3, 1975

FROM: Mervyn L. Weiner

SUBJECT: Your Meeting with the Prime Minister of Pakistan

You have an appointment with Mr. Zulfikar Ali Bhutto, Prime Minister of Pakistan, at Blair House at 6 p.m. Tuesday, February 4, 1975.

Mr. Bhutto last visited Washington in September 1973. He did not visit the Bank because no senior management was in Washington at the time. Mr. Cargill and Mr. Diamond met him in Amsterdam before his visit to discuss the Bank's response to the serious floods which had just occurred. I gather from the Embassy that the present visit - although an official visit - is regarded as a "working visit"; there will be less fanfare and formality than there was last time.

Your last meeting with a senior minister from Pakistan was with Dr. Mubashir Hasan, the then Finance Minister, in October 1974. Dr. Hasan was removed from his post about three weeks later. At the time Mr. Bhutto was careful to compliment Dr. Hasan and to stress that his departure from the Cabinet did not signal a change in policy. Nevertheless, Dr. Hasan was one of the foremost left-wing ideologues in the People's Party and his position at the center of economic policy made it virtually impossible to create an atmosphere of confidence in the private sector. Hence, although the cheering had to be muted, his removal was clearly regarded by the private sector as a major move in the right direction. It has recently been announced that Dr. Hasan has been appointed Secretary General of the People's Party. This appointment shows that he retains political influence within the Party but it does not give him the day to day influence in the Government which he used to have.

Mr. Bhutto comes to Washington at a time when his political position is still strong. He does, however, face growing problems within his party between the pragmatists and the more doctrinaire socialists and at the same time, the economic problems are becoming more difficult.

Major Issues

1. Matters which Mr. Bhutto may raise.

(a) Tarbela. You indicated to Dr. Hasan last October that we would be as helpful as we could. The present situation regarding Tarbela is described below.

73 63
74 111
75 131
76 125

(b) Program Lending. Until the current year, Pakistan's economic situation and particularly its balance of payments have been relatively favorable. However, owing partly to the rise in the oil price and the need for increased wheat imports to offset the effect of reduced crops due to the floods of August 1973 and a drought last summer, Pakistan's balance of payments has deteriorated sharply and is likely to deteriorate further in 1975/76. (See Annex 1) Hence Mr. Bhutto may ask for program assistance.

75-79 711/5 = 140

Despite the economic problems we do not believe program assistance from the Bank Group would be justified. Pakistan has received substantial assistance from OPEC countries, particularly a program loan from Iran of $580 million, of which $250 million is available for the current year and another $180 million is scheduled for FY76. Furthermore, with Tarbela water and more suitable prices for farm products the potential for early balance of payments improvement through increased agricultural output is substantial. Bank Group lending would thus be better applied to projects designed to deal with specific long run problems of productivity and growth.

2. Matters which you may wish to raise.

Our concerns about Pakistan are, firstly, about the adequacy of the Government's general response to the growing economic problems and, secondly, about the specific problems of agricultural production and investment.

The general economic policy problems relate to the growing domestic budget and balance of payments deficits, the low levels of saving and investment, and the limited growth of agricultural production. While the immediate severity of these problems is partly due to bad weather and adverse international prices, they also reflect the failure over the past two or three years, when rice and cotton prices were high and aid plentiful, to mobilize adequate public and private domestic savings and to launch effective programs to increase production and exports. The growing inflow of aid from OPEC countries may make it possible for Pakistan to avoid addressing its budget and balance of payments problems for another several years. For the long run, however, measures to reduce subsidies, increase budget revenue and the earnings of government enterprises are needed if Pakistan is to expand its development effort without enlarging imprudently its payments deficit and dependence on foreign aid.

We have specific concern about the agricultural sector. There are many organizational, pricing and technical problems hindering the growth of agricultural production. These include low government procurement prices for foodgrains and their subsidized sale through urban ration shops, inadequate quality control and production of seed (a Bank seed multiplication project is intended to address this problem), inadequate application of pesticides, water shortages, salinity and water logging problems and an inadequate system to deliver technical advice and inputs to farmers. There are also enormous requirements for new investment to increase the productivity of the Indus Basin. We are discussing with the Government its program of studies for these investments and the related agricultural policy issues but, given the complicated technical issues of land and water management in the Indus Basin and the constraints on the manpower that we can deploy, it will take time to build up an adequate agricultural operations pipeline.

Tarbela

Mr. Bhutto may mention the situation arising from the difficulties which accompanied the first test filling of the Tarbela reservoir, and which resulted in considerable damage and ask what assistance the Bank or IDA is likely to provide.

As you know, Mr. Chadenet visited Pakistan in October and in December 1974 and on each occasion reviewed his impressions with Mr. Bhutto. Detailed reports on these visits have been sent to the Contributing Parties, including Pakistan. Very good progress is being made in implementing the program of repairs and additional works. Mr. Chadenet will visit the site again within the next few weeks to assess the situation and update the estimate of costs.

All parties are aware that additional funds will be needed to complete the works. Currently it is estimated by our Consultants that the repair and additional works will cost between $60 million and $80 million. Roughly $55 million are now estimated to be needed to supplement existing donor commitments. The Government has asked us to attempt to raise the additional foreign resources required from the Contributing Parties to the Indus Basin and Tarbela Development Funds, and then, to the extent that additional funds are still required, to find out whether assistance would be forthcoming from the OPEC countries. A meeting of the Contributing Parties is planned to take place in Paris early in April, as additional disbursable funds will probably be required as early as July or August 1975. (Our information is that the insurance claims will take years rather than months to settle and that the outcome of them is quite uncertain. Pakistan is obliged to provide additional rupee resources as they are required, and has a residual obligation to provide foreign exchange funds if supplementary financing is not forthcoming from other sources).

IDA $75

Bk [illegible] 80

$155 or $230 m per Region

JHCollier/MLWeiner:mjs

Economic Prospects

Pakistan faces much more serious growth and balance of payments problems this fiscal year and next than had been foreseen eight or nine months ago. Drought will lower this spring's wheat crop by perhaps 20%. In addition, Pakistan's terms of trade deteriorated by 21% during FY74, and the quantity of exports declined because of the effects of the August 1973 floods, the decline in the world market for cotton yarn and textiles, and the stagnation in agricultural production which limited the availability of the major export items. As a consequence Pakistan's current account deficit plus debt amortization (i.e. its external financing requirement) is expected to jump from $680 million in FY74 to $1.1 billion in FY75 and $1.5 billion in FY76 (Table 1). This deficit should be smaller in FY77 and FY78, however, as import requirements for wheat, edible oil and fertilizer (the three largest imports other than petroleum) are expected to decline sharply with near self-sufficiency in foodgrains assisted by the additional water from Tarbela, as well as increased cotton and cotton seed production and more efficient oil extraction processes, and with the Multan fertilizer plant expected to come on stream at the end of FY77.

Adequate external financing is in hand to cover the FY75 deficit. As shown in Table 2, about $950 million of disbursements are expected to be made from the aid pipeline, including $300 million in cash loans and grants that have already been received from OPEC countries. Disbursements of aid from Consortium countries are also expected to rise by $140 million, primarily because of the rebuilding of the project pipeline after the fall in project aid following the loss of East Pakistan. Net credit from the IMF is expected to be about $200 million, including about $145 million from the Special Oil Facility. We have just been informed that Pakistan expects to complete arrangements soon for cash loans of $100 million from Abu Dhabi and $50 million from Libya. These loans are expected to become available this fiscal year, but in view of other financing they may be available to finance FY76 imports.

Table 3 shows the expected cost of oil imports. Oil imports net of re-exports are expected to increase from $51 million in FY73 to $320 million this year. Gross POL imports will rise from 7% of total imports in FY73 to about 18% this fiscal year.

As the table shows lending has been increasing steadily since FY72 and is likely to continue to do so. At the last Annual Meeting you informed the Finance Minister that we would be prepared to consider additional projects if Pakistan could prepare them and submit them to us. Since then the Government has submitted four formal applications for loans - an agricultural credit project, a power transmission project, a railway project and a fertilizer project. The first three of these are "repeater" projects which were already provided for in our operations program. The fertilizer project is one that we knew about but had not been asked to finance until recently. The initial request was for $35 million and it was subsequently increased to $50 million.

Table 1: BALANCE OF PAYMENTS 1972/73 AND 1973/74 AND PROJECTIONS FOR 1974/75 AND 1975/76
(dollar million)

CURRENT ACCOUNT	1972/73	1973/74	1974/75	1975/76
I. Merchandise Trade Balance	-124	-483	-825	-1,043
Exports F.O.B.	767	1,022	1,175	1,450
Imports F.O.B.	891	1,505	2,000	2,600
II. Non-Factor Services Balance	- 67	-159	-240	-289
Receipts	136	180	224	279
Payments	203	339	464	568
III. Factor Income Balance	+ 61	+ 76	+ 65	+ 59
Receipts	164	187	185	205
Private Transfers (worker's remittances)	147	151	150	170
Investment Income	17	36	35	35
Payments	103	111	120	146
Investment Income	102	110	119	145
(Interest on foreign debt)	(83)	(80)	(86)	(110)
(Other)	(19)	(30)	(33)	(35)
Private Transfers	1	1	1	1
IV. Total Current Account (I+II+III)	-130	-566	-1,000	-1,380
CAPITAL ACCOUNT				
V. Foreign Aid	241	402	834	1,053
Official Capital Transfers	30	56	110	70
Loans	314	459	839	1,150
Amortization	-103	-113	-115	-167
VI. Accounts with IMF	- 5	53	193	-)
VII. Capital Transactions n.i.e. (net)	42	28	10	-)
VIII. Changes in Reserves (- increase)	-155	+ 95	- 37	+ 327)
IX. Errors and Omissions	7	12	-	-

Source: State Bank of Pakistan for 1972/73 and 1973/74; projections by Government of Pakistan and Bank Staff for 1974/75 and 1975/76.

Table 2 PAKISTAN: Estimated Disbursements of Foreign Economic Assistance

	1973/74	1974/75
Consortium	417	600
Bilateral	160	300
Multilateral	73	113
Food Aid	142	124
Indus/Tarbela	42	63
OPEC 1/	0	300 1/
Cash Loans		(260)
Iran		250
Qatar		10
Relief Grants 2/		(40)
Libya		16
Saudi Arabia		10
United Arab Emirates		8
Kuwait		5
Iran		1
Other Non-Consortium	33	49
Total All Source 1/	450	949 1/

1/ We were informed by cable from our Islamabad office on January 29 that loans of about $100 million from Abu Dhabi and $50 million from Libya are expected to be signed soon. It is believed that these will be free foreign exchange loans to be disbursed in FY75. These would raise the FY75 foreign assistance disbursement level to about $1,100 million.

2/ Relief grants for December 28, 1974 earthquake, which affected mountainous area with estimated 80,000 people. Grants equalled $500 per area resident.

Table 3: PAKISTAN: Petroleum Imports and Exports
(in millions)

	1972/73		1973/74		1974/75		1975/76	
	(tons)	($)	(tons)	($)	(tons)	($)	(tons)	($)
Imports	3.10	63	3.64	152	3.99	365	4.34	398
Crude	2.48	45	2.84	105	2.84	233	2.84	233
Products	0.62	18	0.80	47	1.15	132	1.50	165
Exports	n.a	12	0.27	17	0.27	45	0.27	45
Net Imports	n.a	51	3.37	135	3.72	320	4.07	353

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February 20, 1975

Note for the File

Ambassador Yaqub-Khan, accompanied by Minister Mufti, presented the Bank with a room-size, (not new - possibly antique) Oriental carpet of Pakistani manufacture, which Mr. McNamara accepted for the Bank and asked Mr. Twining to find an appropriate place to display it.

B.

B. M. Moore

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OFFICE MEMORANDUM

TO: Files

DATE: September 5, 1975

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

SUBJECT: PAKISTAN - Delegation Meeting with Mr. McNamara

The Pakistan delegation met with Mr. McNamara on Thursday, September 4, at 8:30 a.m. The Pakistan delegation consisted of Mr. Mohammad Hanif, Minister of Finance, Mr. A.G.N. Kazi, Secretary General, Ministry of Finance and Economic Coordination and Mr. A.M. Mufti, Economic Minister, Embassy of Pakistan. On the Bank's side there were present Messrs. McNamara, Knapp, Weiner, Stern, Diamond, van der Meer, Gilmartin, Collier and Burmester.

The discussion began with the Minister referring to the situation at Tarbela. It had been decided to hold the reservoir level at around 1530 ft. which was the course recommended by Mr. Chadenet. The Minister expressed the Government's appreciation to the Bank for making Mr. Chadenet's services available. The most important remaining problem was the repair of the stilling basin for tunnels 3 and 4. It was hoped that this could be completed by the end of December. In any case water from Tarbela would be available for the rabi crop.

Mr. Kazi commented that a most important factor for agricultural productivity was improved seed. Initially they had been obtaining yields from improved varities of wheat seed of 25 to 40 maunds per acre but the yields had now deteriorated to around 14 maunds per acre. Hence the forthcoming seed project to be financed by the Bank was a key project.

Mr. McNamara expressed his concern about the small number of agricultural and rural development projects in the pipeline. A substantial number of agricultural projects should be an essential part of a high level of lending. The Minister confirmed the importance which the government attached to rural development and said that the program was being implemented. Mr. Kazi said that it was a question of obtaining the cooperation of small farmers and providing adequate motivation. Pakistan also had a large number of projects in the area of water control and some of these would be coming up. Mr. Diamond said that there seemed to have been an impression in Pakistan that projects without large foreign exchange requirements were not suitable for Bank financing. However, this was not the case and Mr. McNamara confirmed that the Bank was prepared to consider financing local expenditure where necessary in this kind of project. Mr. McNamara then mentioned the Fauji fertilizer project and Mr. Kazi said that although there had been an initial delay in this project because of the withdrawal of the original sponsor, U.S. Steel, an agreement had been reached with Agrico and the project was now going ahead.

Mr. McNamara then referred to the Bank's general economic concerns regarding the mobilization of domestic resources, export performance and debt management. Mr. Kazi referred to the Government's policies which were set out in the "Development Perspectives". He hoped that the forthcoming economic mission would be able to participate in a revision of the program set out in

cont/

the "Development Perspectives" and that this could lead on to a program loan. Mr. McNamara said that in his view two conditions were essential for any program loan. First, the loan should not be a substitute for projects and secondly, it should be based on a sound development program. Mr. Kazi said that their intention was to keep their development plan realistic by having a "rolling" plan which was revised every year. As regards the mobilization of savings, the Minister referred to the large reduction in food subsidies which had been achieved as a result in the substantial increase in the prices of wheat and other commodities. Mr. Knapp inquired about export prospects and Mr. Kazi said that exports had been doing very well until last year when cotton exports had been hit by the world recession. The indications now were that things were picking up. The Middle East was an important market for Pakistan and exports were increasing rapidly; Iran was now one of Pakistan's largest customers. This year, however, there was a problem with regard to rice. Increased competition from the United States' rice had brought the price down quite substantially.

JHCollier:mjs

cc: Messrs. McNamara, Knapp, Weiner, Stern, Diamond, van der Meer,
Gilmartin, Pilvin

II. BIOGRAPHICAL DATA

Rana Mohammad Hanif Khan, Minister of Finance, Planning and Economic Affairs, was born in East Punjab, India, in 1921. He graduated from the Government College, Ludhiana in 1952 and studied law in England where he was called to the bar in 1955. He joined the Pakistan People's Party in 1970 and was elected to the National Assembly in December, 1970. He became Minister of Labor in early 1972 and was concurrently Minister of Fuel, Power and Natural Resources from February to October, 1974. He was appointed Minister of Finance in October, 1974.

A. G. N. Kazi, Secretary General, Finance and Economic Coordination, Ministry of Finance, is 56, has an M.Sc. in Applied Mathematics. In 1943, he took the Indian Civil Service Examination and was posted to the Bihar/Orisa Province in India. Since independence, Mr. Kazi has 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. Subsequently, 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 appointed to 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 group of senior civil servants whom the politicians seem to trust.

Ghulam Ishaq Khan, Governor, State Bank of Pakistan, is 60 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 Inida 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 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, he was appointed 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 is one of those most aware of the necessity to restrain spending in order for mobilize resources for development.

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (thru R. Picciotto)

DATE: April 30, 1976

FROM: B. Chadenet

SUBJECT: Tarbela - Briefing for the visit of Ambassador Khan

Ambassador Khan is seeing you today to present a cable from Prime Minister Bhutto about the latest Tarbela incidents which I mentioned to you briefly on the phone.

The purpose of this memorandum is to summarize the incidents, comment about their costs and suggest a line of action.

Summary of incidents

These new incidents affect the stilling basin No. 3; they are independent from and on a much smaller scale than the serious incidents which occurred in 1974 on Tunnels No. 1 and 2; these tunnels have now been repaired (with the exception of a mysterious leak at the inlet of Tunnel No. 2) and Tunnel No. 1 is being converted from its temporary function of diversion to that of conveying water to the power plant. The power plant is to start producing power next December.

There are three irrigation tunnels: No. 3 and 4 are on the right bank next to the tunnels mentioned above and No. 5 on the left bank.1/ The tunnels are throttled at their downstream ends by pairs of gates which release irrigation waters at very high velocities into "stilling basins" where the waters slow down; when the gates are fully opened and when the reservoir is full, as is the case now, 2 million kw of wild energy per basin are dissipated through turbulence and heat.

Last summer, just after my August visit, stilling basin No. 3 practically collapsed and stilling basin No. 4 was also eroded, albeit much less seriously. The stilling basins being of a conventional design, the incidents were attributed to the triggering action of boulders which would have entered the basins at the time of the tunnel collapse and reservoir dumping.

During my February visit to Pakistan and in line with Mr. Kirmani's views, I recommended that "the reservoir should be operated so as to minimize the strain on the outlet structures by restricting as much as possible the energy dissipated in the outlet structures of tunnels 3 and 4". During my visit, TAMS produced operational proposals which followed this recommendation.

For a reason yet unknown, last week the authorities opened the gates fully rather than half way just after the stilling basins had been repaired. After 18 hours of continuous test operation on April 26/27, divers found that in stilling basin No. 3, pieces of concrete up to six feet thick had been eroded or floated out of the basin floor.

1/ Not Bank financed as deemed economically unjustified at the time.

We have sent cables questioning plans of operation envisaged in Pakistan and asking why the gates were fully opened.

Costs

It is much too early to estimate the cost of repairs. They might constitute only a fraction of the $5 million required to repair the collapse of basin No. 3 last year. However, if redesign is called for the costs could be much higher. The agricultural benefits foregone would, of course, be even higher and will depend on the time required to put the dam back into operation. Whether a solution can be found and implemented between now and October is still unknown.

In any case, the power plant should start generating next December if all the equipment is ready. The date is not affected by the last incidents.

Suggested line with Ambassador Khan

It is understood that Prime Minister Bhutto will express through the Pakistan Ambassador the deep disappointment and frustration of his Government at the repeated and continuing Tarbela disasters. He is also likely to express his total lack of confidence in TAMS and may suggest appointment of new consultants or a new panel of experts to review the adequacy of the stilling basin designs, which is the main channel for the supply of irrigation water. Government's frustrations are understandable. However, what seems to be missing at Tarbela is not expertise. Indeed, some of the world's best-known consulting firms and panel of experts are already associated with Tarbela. TAMS, Harza, Gibb and the Panel of Special Consultants which include Casagrande, Slichter, Duma, Johnson, Karate and others cannot be easily substituted. What is lacking is the effective utilization and management of the expertise. Bringing in new consultants or a new panel of experts will not improve the situation. On the contrary, it may cause more confusion, more controversy leading to inevitable delays. It may also complicate the insurance dispute.

Wapda is apparently not playing an effective management role at present. One solution is that Harza, who are already General Consultants to Wapda, should be given an active management role as an arm of Wapda and bring in additional specialized expertise, as required. Such a role for Harza would not be inconsistent with their present contract, although in practice they seem to be playing more a reviewing and advisory role. The Panel of Special Consultants are presently responsible to TAMS and not to Wapda. As a consequence, special consultants are viewed by the Government as a part of TAMS and not as an independent panel of experts. Some redefinition of their role may be in order. In any case, given the existing sensitivities in the relationships and working arrangements between the various consulting firms and Wapda, the new arrangements have to be worked out carefully and on the ground to mobilize the existing talents to best advantage instead of exasperating the present sensitivities by introducing another group of experts or consultants. Bank's assistance in achieving this objective, I believe, will be important in resolving the technical as well as the management problems affecting Tarbela.

In brief:

(I) I would not encourage an intervention of new consultants; this would cause a loss of time and add to confusion through more dilution of authority;

(ii) I would propose that you indicate your readiness to make Kirmani available for secondment to the Pakistan Government. (This has not been checked with Mr. Bell.) His calm, competence, local experience and authority would be very effective.

(III) I would propose that I visit Pakistan for four days around mid-May, time of the meeting of the special consultants.

I suggest that in addition to myself, Messrs. Picciotto, ~~Kirmani~~ and Alsegaf be with you during the meeting.

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INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: FILES

DATE: November 20, 1976

FROM: Alexander F. Kirk

SUBJECT: PAKISTAN - Mr. McNamara's Visit of November 11-14, 1976

I. Introduction

This was Mr. McNamara's third visit to Pakistan since he became President of the World Bank, the last such visit having taken place in 1972. Mr. McNamara and Mr. Bhutto are well known to each other, having met on several occasions during Mr. McNamara's Presidency of the Bank as well as prior to that. Mr. McNamara was accompanied by his wife and by Messrs. Ernest Stern (Vice President South Asia Region), Mr. William Clark (Vice President for External Relations) and Mr. Sven Burmeister (Personal Assistant to Mr. McNamara). I accompanied Mr. McNamara throughout his visit except at the meeting he had with the Prime Minister. Mrs. McNamara also followed the same itinerary as her husband, except for November 13, when she visited local institutes in and around Islamabad.

Mr. McNamara's visit to Pakistan was the last leg of a trip which began on October 30 and had taken him to Burma, Bangladesh and India. His visit to Pakistan coincided with the Government's preparation of its draft 6-year Plan and before the general election which is expected to take place towards the spring of 1977.

II. Field Visits

Mr. McNamara arrived in Lahore from Delhi in the evening of November 11. A copy of his arrival statement is included in his briefing book. That night Mr. McNamara was entertained to dinner by the Governor of Punjab. On the following day his party (Mr. and Mrs. McNamara, Messrs. Clark, Burmeister and Kirk) set out in two helicopters provided by the Cabinet Division for a visit first to Lyallpur and the surrounding area and next to Gujranwala. On his trip Mr. McNamara was accompanied by the Secretary of Agriculture for the Government of Punjab, Mr. M.Nasim and by Mr. Aftab Ahmad Khan, Secretary of Economic Affairs. At Lyallpur he was met by the Vice Chancellor of the Agricultural University, Dr. Amir Mohammad, who showed us around the University campus and the facilities of the University, the construction and equipment of which were financed by an IDA Credit made in 1964. Dr. Amir briefed Mr. McNamara about the range of activities of the University with its 4000-odd student body and more than 300 teaching staff. He also described the range of courses available at the University, including BSc in various agricultural sectors such as agricultural engineering and animal husbandry. He also stressed the fact that as part of their training undergraduates were required to spend a certain amount of time working with farmers in nearby villages and that their papers on this work were included in assessing their grades. Dr. Amir also told us that he planned to insist upon all theses for higher degrees to concentrate on problems of agriculture in Pakistan rather than to be of the more wide ranging type. After the visit to the University the party paid brief visits to the Agricultural Research Institute and the Nuclear Institute for Agriculture and Biology which was inaugurated in 1972 and concentrates on problems in agriculture where radiation can be advantageously used. Visits were made to various laboratories where Mr. McNamara was shown the effect of the Institute's work in improving the genetic characteristics of various crops and the impact of preservation of various crops by irradiation.

Mr. McNamara's party then flew to the nearby village of Thikriwala where he met several groups of farmers. Mr. McNamara was able to question the farmers through an interpreter and at one farm he was introduced to two of the Lyallpur students who were working on extension. At this particular farm the extension workers had been allocated half an acre of the farmer's total holding of around 8 acres on which they were to apply the full recommended dosage of fertilizer (120 lb per acre). Mr. McNamara asked the farmer why he was not doing the same with regard to the rest of the farm instead of the lower amount he planned to apply of about 70 lb per acre. The farmer replied that he would wait to see what happened to the half acre which was under the care of the two extension workers and summed up his views by saying "seeing is believing". At another site Mr. McNamara was able to question two farmers one of whom had a farm of 27 acres and complained that he had not been given sufficient fertilizer while the other who had an 8-acre farm had received sufficient for his purposes. Another point made by the first of the farmers interviewed by Mr. McNamara was his reluctance to borrow to finance the purchase of inputs; as a small farmer he said that one bad crop could damage him acutely and he would be unable to meet his debt repayments.

This part of the visit concluded with lunch by the Chancellor of the University and Mr. McNamara then proceeded by helicopter to Gujranwala where he visited three factories, two of which were on the Gujranwala industrial estate, a credit for which had been made by IDA in November 1962. After brief visits to the three factories Mr. McNamara returned to Lahore to catch his flight to Rawalpindi.

On Saturday afternoon after his lunch with the Prime Minister and Mrs. Bhutto, Mr. McNamara flew to Tarbela accompanied by Ministers Pirzada and Khattak and by Mr. Stern and myself.

Mr. McNamara was shown around the site by the Chairman WAPDA and by Minister Pirzada after a briefing by the Chairman. Although I was not present at the time the Chairman WAPDA has since advised me that he mentioned to Mr. McNamara that he hoped that the World Bank would assist WAPDA in financing a rural electrification project and additional financing for certain other projects.

III. Discussions with Government Officials and others

On the morning of Saturday November 13 Mr. McNamara had a series of meetings with Government officials. (We had the night before been handed copies of Tables on the Six-Year Plan to which reference was made at the meetings and which are available in the Pakistan Division.)

The first meeting was with the Finance Minister, Rana Mohammad Hanif Khan, and the Secretary-General, Finance and Coordination, A.G.N. Kazi. Mr. McNamara told the Minister that he thought there had been a great improvement in Pakistan's position since his last visit in 1972, but said he felt there was a great need for adequate policy planning. The Minister then talked at some length about the development since the separation of Bangladesh and about his early days as Labour Minister. He outlined his views about the general prospects for the economy, particularly agriculture - he was optimistic about wheat and sugar, but doubtful about improving rice exports - and Tarbela, as well as the need to cope with waterlogging and salinity. Both Mr. McNamara and Mr. Stern referred to the ambitious overall program of the Government and inquired about the Government's plans for additional taxes and plans for savings and whether it would not be possible to impose taxes on SCARPS as a means of raising additional resources. The Minister said that any such plans would have to wait until after the elections, but in response to Mr. McNamara's question he said that the Government has to increase domestic savings. He also said that after the elections the Government expected to eliminate all subsidies and again stressed that important economic decisions would really have to wait until after the elections.

Mr. McNamara pointed out that the increase in savings projected in the development plan was tremendous and wondered how these could be raised. Mr. Kazi said that they planned to increase the return on public industrial enterprises to 20 percent at which Mr. McNamara said he found it hard to believe that they would reach that level when he understood the present return was around 5 percent. The situation of the return on industry investments became somewhat unclear as will be seen in the note on Mr. McNamara's meeting with the Minister of Production. Mr. McNamara said that the objectives of the Plan were commendable but asked what would happen if funds were inadequate to achieve them, especially in the agricultural sector. Mr. Kazi said that the agricultural sector would be protected and if necessary they would cut back on other projects.

Mr. Stern asked about the position of the private sector and the Minister said that there had been some improvement last year in the medium to small scale industrial sector. The Minister added that he was very much in favor of private investment including investments from foreign sources. In response to a question by Mr. Stern he said that there had been some response from private foreign investors although the only specific companies he mentioned were Agrico and Gulf Oil. In replying to another question from Mr. Stern the Secretary-General said that he expected inflation to be about the same as last year, namely around 7 percent.

Mr. McNamara then met with various Secretaries to Government at a meeting chaired by Mr. Jafarey, Secretary of Planning.1/ A large part of this meeting was taken up by the statements of the individual Secretaries and it was only towards the last 20 minutes or so of the meeting that Mr. McNamara was able to ask any questions. The Secretaries' statements essentially were summaries of the draft Plan as it affected their respective Ministries with some historical background. In essence Mr.Jafarey referred to the various problems in the past and that the Plan now being drafted, the guidelines for which have already been approved by the Government, had two themes, namely national integration and the reduction in poverty. References were made to the various targets set forth in the Plan tables already referred to. At the end of the various statements Mr. McNamara said that he had a few questions he wished to put to the Secretaries and stressed that the questions were not in themselves meant to be suggestions for possible solutions to problems. He first asked whether the reference by Mr. Jafarey to difficulties involved in exports to developed countries was a question of discrimination or of preferential treatment. We were advised that there was discrimination and the Secretary promised to send me a note on this which has yet to be received. Mr. McNamara said that although it was dangerous when outsiders posed questions and also for the Government to accept an outsider's views, he did want to say that although he thought the Plan was admirable and its objectives good especially as regarding health and education as well as agriculture, he could not see how it could be accomplished. He made specific reference to the targets set out in the Tables and among various examples cited agriculture; although Pakistan is blessed

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1/ The Secretaries present were: Mr. V.A. Jafarey, Secretary Planning; Mr. Aftab Ahmad Khan, Secretary Economic Affairs; Mr. I.A. Imtiazi, Secretary Food and Agriculture; Mr. Rauf Shaikh, Secretary Finance; Mr. Masaur Hasan Khan, Secretary Fuel, Power and Natural Resources; and Mr. Ejaz Ahmad Naik, Secretary of Commerce.

with ample water supply and a good irrigation system he could not see the Plan targets being achieved. While he did not want the Secretaries to necessarily accept his judgment he asked what would happen if he was right and the Plan makers were wrong, especially as regards the return on public enterprises and marginal savings rate. His fear was that agriculture and social services would be the most likely to be curtailed if revenue was down and prestigious projects would receive the available resources. Again he stressed that this was merely a question and not a prediction. The Secretary of Planning said that there was the annual plan mechanism so that there would be yearly adjustments made and that all efforts would be made to achieve the agricultural targets in the interests of the people and politicians. He agreed that the social sectors were the ones most likely to be hurt in the event of a resource gap but the Government was trying to protect these sectors and he cited as an example of this education where there was a shift in resource allocation away from higher eduction to primary education. He said the Plan as it existed is still in draft form and he would bear in mind what Mr. McNamara had said. The Plan would be worked on over the next few months and he was sure Pakistan would come up with a realistic one.

Mr. McNamara welcomed Mr. Jafarey's statement but he said he was aware of a few examples which showed the poor administration in certain areas; these included the report of the mission on Flood Rehabilitation which showed that the damage had been great but that a considerable percentage of Government equipment was not serviceable due to the lack of spare parts for which very little foreign exchange was needed. He also referred to his field trip and the evidence of very poor water management and extension services. He thought that the farmers he had met were extremely good but they needed much more help in the extension field. While he felt the targets in the Plan might be achieved his own personal view wat that it would take an almost superhuman effort to achieve them in the given time period. He said that during his field trip he had been told that there was only a 97 percent cropping intensity which he thought was disgraceful in a country like Pakistan.

Mr. Jafarey said he agreed about extension and mentioned the FAO/IBRD missions which were hoping to improve this aspect; it was necessary to ensure that the extension workers did their work properly and should be given every incentive to do so. In concluding the meeting, Mr. McNamara said how impressed he was by the emphasis in the Plan on eliminating malnutrition. He referred to Table 6 (Population) of the Tables on the 6-Year Plan and said that, while commendable, he doubted if the targets could be met, specifically the reduction in population growth rate from 3% to 2.4% annually and crude birth rate from 43.5 to 34 over 6 years. Mr. McNamara wondered what steps the Government had in mind to develop a meaningful family planning program. Would there be any sort of compulsion? Mr. Jafarey was somewhat evasive on this point and said there might possibly be an element of compulsion although the only specific measure he could menti on was an increase in the minimum age of marriage.

Mr. Stern said that while the Government said they would devote resources to agriculture and social sectors in preference to large scale industrial projects, he wondered how this could be done given the fact that e.g. the steel mill was under construction. Was there any flexibility? Mr. Jafarey said that a percentage ceiling had been placed on industry and that this was the only ceili ng contained in the Annual Development Plan. Mr. AFtab Ahmad Khan added that the shift by the World Bank to finance social sectors would help the Government in its efforts to develop these areas.

Mr. McNamara's next meeting was with Mr. M.Rafi Raza, the Minister for Production who was accompanied at the meeting by Mr. Awan, Secretary of Production. The Minister in response to ~~a question by Mr. McNamara said~~ that the small scale sector could be better organized, but the small man tended to go his own way; he was not directly concerned with industry apart from the large public sector enterprises. Mr. McNamara inquired about the profit levels for the BIM and the Minister said that, if short term loans were excluded, BIM would now meet a 20 percent return except for the heavy engineering complex which had just started up. Mr. Stern pointed out that we had been informed that the return was in fact only 5 or 6 percent, but the Minister maintained that return was at least 12 percent. Mr. McNamara then said it appeared there was no scope for any increase in revenue from the public sector above this and the Minister admitted that the opportunities were limited although there might be a possibility of increasing return on fertilizer production. Given price controls Mr. Stern said he thought a 20 percent return on investment in the fertilizer industry in the public sector was virtually impossible and the Minister agreed. In summary, Mr. Raza was gloomy on the prospects of raising more resources from public industry except possibly cement. Over the next five years the asset base of public sector industry under the Ministry would increase from the equivalent of $600 million to $4.4 billion of which steel would account for more than $1 billion. Mr. Stern wondered if an adequate management for this sector existed and the Minister agreed this was a problem not only for senior management but for semi-skilled workers. He added that there is some reorienting of the educational program so that students would be attracted more to technical training. He told Mr. McNamara that he hoped that the steel mill would be in part production by fiscal 1978 and in full production between fiscal 1981 and 1982; Russia would give some technical assistance for the steel mill with a peak of about 600 Russians at the site for the construction stage and around 100 at the operational stage.

Mr. Stern asked about exports by public sector industry and the Minister said that so far it is very little, but Pakistan was moving into the construction of certain plants overseas and in particular sugar and cement plants. Government plants were acting as sub-contractors for foreign contractors in overseas countries. In conclusion Mr. Raza pointed out that the textile industry was entirely private although the Provinces were moving into certain backward areas because of the reluctance of private industry to locate plants there. After this meeting Mr. McNamara met with the Prime Minister for about 1¼ hours. No one else was present at this meeting.

After returning from Tarbela, Mr. McNamara met with Mr. Babar Ali who is the Chairman of the Fertilizer Corporation of Pakistan and a successful private businessman. Mr. Ali referred to his work in organizing the construction of the public sector fertilizer plants and to the fact that the after tax return on these plants would be around 15 percent. He thought that adequate credit would be available for farmers to purchase fertilizer although he agreed that there was a need for much better extension facilities.

Mr. McNamara asked Mr. Ali about the private sector and the latter acknowledged that it had been badly shaken by the recent nationalizations. Entrepreneurs were very hesitant about moving into new investments although small firms up to the $0.5 million range were coming along.

Mr. Ali did not seem to be too worried about the braindrain as it affected his fertilizer plants and said that he had attracted back to Pakistan some well-trained managers from the U.S. and Europe. He said that there was an excess of engineering graduates in the country and he thought they could be attracted to his industry.

On general matters he thought the economic management of the country was bad - there was a lack of coördination and decisions were made on an ad hoc basis. There was a great need for improvement in quality of people at the planning level.

Mr. McNamara's final meeting was with Mr. John Cool, Representative of the Ford Foundation in Pakistan at which no other person was present.

IV. Media Coverage

The visit was well covered by the press, television and radio. Clippings, photographs and TV tape are being provided to the Department of External Relations.

V. Conclusion

The great advantage of this visit was that Mr. McNamara was able to stress to GOP at various levels the Bank's concern about certain matters such as domestic resource mobilization and investment priorities at a time when the Fifth Plan is still being formulated.

Cleared with and cc: Mr. E. Stern

cc: Mr. McNamara (2 copies)
Messrs. Knapp
Chenery
Clark
Baum
Blobel
Picciotto
Clements

AFKirk:eb

10-11-1976

Final programme of the visit of Mr. Robert S. McNamara, President, World Bank from 11th November to 14th November, 1976.

Date	Timing	
11-11-1976 Thursday	1950 Hours	Arrival by PK 681 from New Delhi (to be received by the Chief Minister, Punjab: Minister for Planning and Development, Punjab: Secretary, Economic Affairs Division, Government of Pakistan and Additional Chief Secretary (Planning & Development), Punjab.
		Stay at Govt. Guest House OR ~~Hotel Inter-Continental~~, Lahore.
	2045 Hours	Dinner at Governor's House, Punjab.
12-11-1976 Friday	0745 Hours	Leave Hotel Inter-Continental, Lahore, for Lahore Museum.
	0800-0900 Hours	Visit Lahore Museum.
	0915 Hours	Leave Lahore Airport for Lyallpur (by Helicopter). Secretary Agriculture to accompany.
	0945 Hours	Arrival at Lyallpur. (to be received by the Commissioner, Sargodha Division and Vice Chancellor, Agriculture University, Lyallpur). Helicopter to land at "D" ground in the University Campus.
	0945-1045 Hours	Visit University of Agriculture.
	1045 Hours	Leave University Campus for Punjab Agricultural Research Institute (by Helicopter).
	1050-1150 Hours	Visit Punjab Agricultural Research Institute.
	1150 Hours	Leave Punjab Agricultural Research Institute for Nuclear Research Institute for Agriculture and Biology (by car).
	1200-1240 Hours	Visit Nuclear Research Institute for Agriculture and Biology.
	1240 Hours	Leave from Punjab Agricultural Research Institute for Village Thikriwala (by Helicopter).
	1250-1320 Hours	Visit Village Thikriwala.
	1320 Hours	Leave Thikriwala for University Campus (by Helicopter).

Contd......P/2

Date	Timing	
	1330--1430 Hours	Lunch at the University of Agriculture, Lyallpur.
	1445 Hours	Leave for Gujranwala (by Helicopter).
	1515 Hours	Arrival at Gujranwala (to be received by Secretary, Industries Department, Government of the Punjab and Commissioner, Lahore Division and leave for Small Industries Estate (by car) Helicopter to land at the Civil Lines helipad.
	1525-1630 Hours	Visit to Small Industries Estate, Gujranwala.
	1645 Hours	Leave Gujranwala for Lahore (by Helicopter).
	1705 Hours	Arrive Lahore Airport.
		Rest in the V.V.I.P. Lounge.
	1745 Hours	Departure for Rawalpindi by flight PK 604. (To be seen off by the Chief Minister, Punjab: Minister for Planning and Development, Punjab and Additional Chief Secretary (Planning and Development), Punjab.
	1845 Hours	Arrival at Islamabad Airport (to be received by Rana Mohammad Hanif Khan, Minister for Finance, Planning & Development) - Stay at Hotel Inter-Continental, Rawalpindi.
	2030 Hours	Dinner by Rana Mohammad Hanif Khan, Minister for Finance, Planning & Development (at the Banquet Hall, Ministry of Foreign Affairs).
13-11-1976 Saturday	0800-0845 Hours	Meeting with Rana Mohammad Hanif Khan, Minister for Finance, Planning & Development and Mr. A.G.N. Kazi, Secretary General(F&EC).
	0900-1030 Hours	Joint meeting with Mr. V.A. Jafarey, (Secretary, Planning Division), Mr. Aftab Ahmad Khan, (Secretary, Economic Affairs Division), Mr. Ejaz Ahmad Naik, (Secretary, Ministry of Commerce), Mr. I.A. Imtiazi, (Secretary, Ministry of Food & Agriculture) and Mr. Masrur Hasan Khan, (Secretary, Ministry of Fuel, Power & Natural Resources)- Meeting to be held in the Committee Room of the Planning Division, "P" Block, Pakistan Secretariat.

Contd......P/3

Date	Timing	
	1045-1115 Hours	Meeting with Mr. Rafi Raza, Minister for Production ____ Mr. S.B. Awan, Secretary, Production Division also to be present in the meeting.
	1115-1200 Hours	Return to Rawalpindi.
	1200-1300 Hours	Meeting with the Prime Minister (Mrs. McNamara calls on Begum Bhutto). 1/12.30-13.00
	1300-1445 Hours	Lunch with the Prime Minister and Begum Bhutto.
	1500 Hours	Departure for Tarbela. (by WAPDA plane).
	1530 Hours	Arrival at Tarbela.
	1530-1615 Hours	Meeting with Mr. Abdul Hafeez Pirzada, Minister for Education & Provincial Co-ordination and Chairman, Special Cabinet Committee on Tarbela and Mr. Mohamed Yusuf Khattak, Minister for Fuel, Power and Natural Resources.
	1615-1700 Hours.	Site visit.
	1700-1730 Hours	From Tarbela to Rawalpindi (by WAPDA plane).
	1830-1900 Hours	Meeting with private individuals (to be arranged by Resident Mission, IBRD).
	2030 Hours	Dinner (private).
14-11-1976 Sunday	0900 Hours	Departure for London.

Programme of Mrs. Robert McNamara
(visit from 11th to 14th November, 1976)

11-11-1976 Thursday	1950 Hours	Arrival from New Delhi by Flight PK 681
	2045 Hours	Dinner by Mr. and Begum Mohammad Abbas Abbasi, Governor, Punjab in honour of Mr. & Mrs. McNamara.
12-11-1976 Friday		Mrs. McNamara will accompany Mr. McNamara on the visit to Lyallpur, Gujranwala and Islamabad.
	2030 Hours	Dinner by Rana Mohammad Hanif Khan, Minister for Finance, Planning & Development (at Islamabad).
13-11-1976 Saturday	0830-0930 Hours	Visit to Islamabad College for Girls (Junior Section) F.6/2.
	1000-1100 Hours	Visit: to Maternity & Child Health Centre, Aabpara Islamabad.
	~~1200~~ 12.30-1300 Hours	Meeting with Begum Nusrat Bhutto (Prime Minister's House, Rawalpindi).
	1300-1445 Hours	Lunch with the Prime Minister and Begum Bhutto.
	1500-1530 Hours	Rawalpindi to Tarbela (accompany Mr. McNamara).
	1700-1730 Hours	Tarbela to Rawalpindi.
	2030 Hours	Dinner (private).
14-11-1976 Sunday.	0900 Hours	Departure for London.

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. McNamara (through Mr. ~~Clark~~ MSC) DATE: December 14, 1976

FROM: Shirley Boskey, IRD SB

SUBJECT: Ambassador Akhund's Luncheon

Re: IDA & Bk, talk to Young
Lack of US Prog for 3rd W, talk to Young

Brandt Com.
DD III or ½ + ODA + Basic Needs
Increase effectiveness of UN re econ devel-
of several departments -
strengthen
[illegible] staff
[illegible] OECD
[illegible] Bk -

The luncheon which Ambassador Akhund has organized for you tomorrow will be held at his residence, 47 East 92nd Street (between Park and Madison; telephone: (212) 427-2888) at 1:15. The guest list is attached.

Ambassador Akhund has put together a reasonably good and balanced Third World group, particularly given the limited time available to him, and the fact that the date is so close to the end of the General Assembly, when ambassadors disperse; moreover, the Secretary General, too, is giving a luncheon tomorrow.

The guests can be divided into three groups: those with an economic and development background, who actively support the Bank Group; career diplomats, who are interested in development matters and have direct access to the highest levels of their governments; and those who are mainly political and lightweight.

Six ambassadors fall into the first group.

Akhund of Pakistan is one of the most influential Third World ambassadors. He has been a mediator between the North and the South, and a voice of moderation, although his position was slightly compromised by Bhutto's call for a summit meeting. (Bhutto is no longer pushing for this.) Akhund has been President of ECOSOC and of the Security Council, and is now the Chairman of the 77 in New York.

Mills of Jamaica is a former Alternate E.D. in the IMF, has worked in Jamaica's Planning Office, and has held his present position since 1972. At that time, Jamaica was a candidate for membership on the Security Council, but Mills, because of the importance he attaches to economic matters, persuaded the Government to become a member of ECOSOC instead. He is one of the most intelligent and articulate of the Third World ambassadors, served as one of the Group of Experts on the Restructuring of the U.N., and has participated actively in the North-South dialogue. It will be Jamaica's turn to provide the president of ECOSOC in 1978, and depending on the outcome of the election in Jamaica, which takes place tomorrow, Mills might hold that position. (You may have seen the story on the election and Prime Minister Manley in last Sunday's New York Times.)

Alzamora of Peru, although a career diplomat, is development-oriented and also a former*E.D. in the IMF. He was co-Chairman of the Raw Materials Commission in CIEC, and thus an important spokesman for the 77.

*Alternate

Kanakaratne of Sri Lanka is one of the best speakers in the U.N. and very close to Mrs. Bandaranaike, the current Chairman of the "non-aligned" group of countries.

Clark of Nigeria is an economist and for years has dealt with trade negotiations at GATT and UNCTAD.

Bishara of Kuwait is an active and sought-after ambassador and much interested in economic and development issues.

Five ambassadors comprise the second group.

Correa da Costa of Brazil is a skilled ambassador and an efficient and useful channel to his Government.

The same is true of Consalvi of Venezuela. Consalvi comes from the private sector. His position has been undercut by the dynamic role that Perez-Guerrero plays in U.N. politics.

Rahal of Algeria and Abdel Meguid of Egypt are also well connected with their Governments and very important to the Bank.

Petric of Yugoslavia is a quiet and unassuming diplomat who carries a great deal of influence with the 77 as well as with the industrialized group.

Three ambassadors fall into the lightweight group: Ake of the Ivory Coast, Reyes of the Philippines and de Rosenzweig-Diaz of Mexico. Reyes is, however, one of the Philippines' three most senior ambassadors. Ake will soon be returning home as Foreign Minister. He is the current President of ECOSOC. You may remember that he was responsible for having the first part of last summer's ECOSOC session held in the Ivory Coast, and he may say to you that he was disappointed that you were not able to address that session.

Ambassador Akhund and his guests would like you to share with them the concerns which are uppermost in your mind -- the future role of the Bank, the objectives and responsibilities of the international community in the next decade, the outcome of the North-South dialogue, and perhaps the proposal for the "Brandt Commission". (The proposal for such a commission was, you will recall, advanced by Pronk in the Second (Economic and Financial) Committee of the U.N.) They themselves are likely to have views on all of these issues. They may well ask how the U.N. (New York) forum can be used to help the Bank. Most of these ambassadors are supporters of the new directions of the Bank and have, in debates at the U.N. and elsewhere, taken positions favoring the expansion of IDA/IBRD resources. It was Ambassador Akhund who sent you a cable on IDA V during the Manila meeting. A resolution on IDA and the IBRD was adopted by consensus last week in the Second Committee; a copy is attached.

I think (and certainly hope) that there can be a good interchange with this group, which is by and large composed of thoughtful men of standing and influence in New York and their capitals, who can be ambassadors for the Bank. Akhund proposed the luncheon with that objective in mind.

Julian Grenfell, who will be at the luncheon, will be able to brief you further on individuals as well as additional topics that might be raised. Since the 11 o'clock shuttle will, or should, bring you to New York with a little time to spare before you are due at Ambassador Akhund's, perhaps you would find it convenient to go first to Julian's apartment, 55 East 72nd Street, Apartment 14 South, which is not far from the Ambassador's residence. I shall tell Julian to expect you, unless you prefer some other arrangements.

MBurney/SBoskey:tsb

cc: Mr. Grenfell
Mr. Burney

Iqbal A. Pakistan

Guest List for Ambassador Akhund's Lunch for Mr. McNamara

Wednesday, December 15, New York, at 1:15 p.m.

Sergio Correa da Costa	-	Brazil (UN)
Carlos T. Alzamora	-	Peru (UN)
Simon Alberto Consalvi	-	Venezuela (UN)
Donald O. Mills	-	Jamaica (UN)
Roberto de Rosenzweig-Diaz	-	Mexico (UN)

* * * *

Abdellatif Rahal	-	Algeria (UN)
B.A. Clark	-	Nigeria (Geneva)
Simeon Ake	-	Ivory Coast (UN)

* * * *

Abdalla Yaccoub Bishara	-	Kuwait (UN)
Esmat Abdel Meguid	-	Egypt (UN)

* * * *

Jaksa Petric	-	Yugoslavia (UN)

* * * *

Narciso Reyes	-	Philippines (UN)
Neville Kanakaratne	-	Sri Lanka (USA. Wash.)
Iqbal A. Akhund	-	Pakistan (UN)

Julian Grenfell

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W... LD BANK / INTERNATIONAL FINANCE CORPOR... ON

OFFICE MEMORANDUM

TO: Files

DATE: May 4, 1978

FROM: Richard Clements, Chief, ASADA RC

SUBJECT: Mr. McNamara's meeting with the Pakistan Ambassador, Tuesday, May 2, 1978

1. The Ambassador was accompanied by Mr. Shah, the Economic Minister at the Embassy. Mr. Picciotto, Mr. Koch-Weser and myself were also present.

2. The Ambassador stated that he wanted to discuss the Government's request for various technical assistance contained in the Chief Martial Law Administrator's April 16 letter to Mr. McNamara. He noted that the Government had requested expert advice in the fields of public sector industry, statistics, and agricultural planning and project formulation. It would also like the services of certain Pakistanis on the Bank's staff, namely, Messrs. Burki, Hasan and Kirmani. The Ambassador said that the Government wanted Mr. Burki and Mr. Hasan as soon as possible to assist with the preparation of the new Five-Year Plan. Mr. McNamara said that he would have this matter looked into immediately. He emphasized that these individuals would go to Pakistan in their private capacity and under arrangements between themselves and the Government. The Ambassador indicated that he was aware of this position.

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3. In response to Mr. McNamara's request, the Ambassador gave an analysis of recent developments in Afghanistan. The Ambassador expressed concern at the establishment of a pro-Moscow government in that country. He saw this as a setback to the harmonious relations which had been developing between Afghanistan, Iran, Pakistan and Saudi Arabia and was apprehensive that it would be an unsettling influence in the region.

Cleared with and cc: Mr. Picciotto

cc: Messrs. Hopper, Benjenk, Blobel (o/r)
Jennings, Koch-Weser

RClements:ra

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: May 2, 1978

FROM: R. Picciotto, Acting RVP, South Asia

SUBJECT: Your meeting with the Pakistan Ambassador, Tuesday, May 2, 1978

1. We understand from the Pakistan Embassy that the principal purpose of the Ambassador's meeting with you is to discuss the April 16 letter from the Chief Martial Law Administrator to you about Pakistan's technical assistance requirements, and in particular the request that certain Pakistani nationals in the Bank be granted leave of absence to enable them to return to Pakistan and assist the Government with policy formulation. Attached is a draft reply to the CMLA's letter which you may wish to use as a brief for your discussion with the Ambassador. I have sent a copy of the letter to Mr. Shahid Husain for his comments since it involves the release of two senior members of his staff. I understand, however, that he would not object to the release of Messrs. Hassan and Kirmani for the periods specified.

2. There is also a possibility that the Ambassador may raise the question of debt relief for Pakistan. A note on this subject is attached. You will note that the subject is being discussed by Messrs. Hopper and Blobel with the Heads of Delegations in Paris this week. Hence, it would be premature to give any indication of the Bank's posture to the Ambassador.

RClements/RPicciotto:cta

Attachments

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 10, 1979

FROM: Michael H. Wiehen, Director, ASA MW

SUBJECT: 1979 Annual Meetings - Meeting of Pakistan Delegation with Mr. McNamara

1. Mr. Ghulam Ishaq Khan, Finance Minister of Pakistan, met with Mr. McNamara on October 3. Messrs. Stern, Hopper, Wiehen, Koch-Weser and Siebeck were also present.

2. Mr. McNamara first thanked the Minister for having cast an early vote in favor of the proposed General Capital Increase of the Bank.

3. The Minister then reviewed in detail Pakistan's economic performance over the last two years. He emphasized that the economy was still in transition and that the present Government was grappling with the legacy of its predecessor. However, he felt that it had already succeeded in reorienting its course. GDP and GNP growth had been well above growth rates achieved in earlier years. Private sector activity had been rekindled. Monetary expansion had been contained, even though the present level was above what he would consider desirable.

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4. Mr. McNamara listed, as the three areas of most serious concern to the Bank, Pakistan's poorly oriented investment program, the continuing high budget deficits and balance of payments problems. Lack of action by the Government to deal with these problems had led the Bank to reduce the volume of IDA operations. He indicated that the IDA lending program could be 60 percent higher if Pakistan were addressing these problems effectively and forcefully. Mr. Hopper pointed to the structural changes that had been suggested by the Bank for several sectors, and not been introduced. Both he and Mr. McNamara remarked that obviously uncertainty about the future of the present Government - which had come to power on an interim basis - had a major dampening effect on economic activity.

5. The Minister agreed that a number of structural changes were necessary and should have been introduced. He argued, however, that resource shortages had tied the hands of the Government, and asked that externally introduced problems from which Pakistan was suffering, such as, bad crops and increasing energy prices, not be overlooked. In sum, he felt that the present Government had in fact done a lot in terms of stabilizing those economic factors which depended on its own actions.

6. As to the future, the Minister first stressed that, in view of the very severe resource shortage, there was an urgent need for rescheduling Pakistan's external debt. He suggested that this could take place concurrently with a Trust Fund Agreement with the IMF, and he asked that the Bank use its influence with Pakistan's creditors to obtain a rescheduling agreement which had previously been refused.

7. Concerning the needed structural changes, this was something to be done over time. He agreed that the Indus Basin Study called for a vast program of action, but he expressed concern over the enormous price tag of the proposed additional investments and said it would take many years to complete. Responding to Mr. Stern's question he added that the Government had recently paid a good deal of attention to the need for more and better extension services, water management and agricultural research, and that it had clearly turned away from the policies pursued by previous governments which had emphasized investments in hardware. He concluded by saying that if Mr. McNamara could agree that Pakistan was now on the right road to recovery, and this he felt was evidenced by the recent performance, then the Bank should come to its help irrespective of the interim nature of the present Government. Such help in his view could take the form of a program loan for fertilizer imports.

8. Mr. McNamara replied accepting that Pakistan needed substantial imports of fertilizer to sustain and expand agricultural production. He said the Bank Group would consider program lending for fertilizer provided these imports were part of a comprehensive program for stimulating agricultural activities and for better utilizing the very substantial investments previously made in the Indus system.

9. Mr. McNamara concluded the meeting by asking the South Asia Region for a paper that outlined in detail the current economic situation and outlook for Pakistan including issues of growth, balance of payments, debt, etc. He assured the Minister that he would review this information in the light of the discussions they were having with a view to assessing carefully the Bank's present assistance and future plans for Pakistan.

cc: Messrs. Stern
Hopper
Picciotto
Koch-Weser
Siebeck
Pakistan Division

WSiebeck:MWiehen/lah

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Memorandum for the Record April 12, 1981

Wolfgang E. Siebeck, Resident Mission, Islamabad

Mr. McNamara's Meeting with General Zia on March 28

Mr. McNamara called on General Zia on March 28 at the Chief of Army Staff House in Rawalpindi. The meeting was attended by Mr. Ghulam Ishaq Khan, Minister of Finance, Ejaz Naik, Secretary Planning and Economic Affairs Divisions, Mr. Beg, Secretary Finance and Messrs. Benjenk, Hopper, Lafourcade and Siebeck from the Bank.

The meeting was followed by a dinner which was also attended by MajGen (Retd) Rao Farman Ali (Minister of Petroleum and Natural Resources), Foreign Secretary Shahnawaz, U.S. Ambassador Hummel, Mr. King (Deputy Chief of Mission, U.S. Embassy) and General Arif (Military Secretary to the President).

General Zia welcomed Mr. McNamara's intention to visit Baluchistan during his short visit to Pakistan. In light of the changed geopolitical situation, Baluchistan required a concerted development effort. Lord Carrington, the British Foreign Secretary had returned from Quetta the same day and had promised 4 million Pounds of British aid for the province. The General added that Baluchistan had remained politically quiet and that Russian efforts at subversion among the Pushto tribes had been unsuccessful. However, the refugee problem was putting an increasing burden on Pakistan's financial and human resources.

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The General agreed with Mr. McNamara's assessment that energy development was one of the highest priorities in Pakistan's development effort. The Finance Minister pointed to the very large investments required in the sector which so far had prevented Pakistan from extracting more gas. Two large gas fields (Dhodak and Pirkoh) would cost $1 billion each to put into production. While Pakistan was trying to enlist financial support from private oil companies particularly for exploration, it had been quite successful in energy conservation and substituting domestic gas for imported oil. For instance, imports of kerosene had been reduced by 30% in 1979. Further savings were possible by converting vehicles, in particular, buses, to LNG.

Mr. McNamara inquired about Pakistan's energy outlook for the next five to ten years. The Finance Minister replied that demand projections had been prepared for ten years according to which imports would continue at about $1.5 billion per year while Pakistan would continue exporting about $200 million per year heavy petroleum products for a few more years. However, plans were now going ahead to add refinery capacity to convert heavy oils into middle distillates. Discussions with Romania for the supply of such a refinery were underway. Another project was being reviewed to convert 350,000 tons of mollasses presently exported into alcohol.

Domestic oil production had admittedly been slow. Pakistan was still at 10,000 bpd while 85,000 bpd were being imported. Mr. McNamara suggested that higher prices would provide better incentives to Ruppee companies in Pakistan (PPL and POL) and induce an increase in production. After all, Pakistan had little alternative except for solar energy which was a remote possibility, and hydropower.

The discussion then switched to the power shortage which Pakistan is expecting in the mid 80's. General Zia pointed to local uranium reserves which would permit Pakistan to expand its nuclear power generating capacity. The technology for this was available in Pakistan. Kalabagh would be the next large hydro project which would follow the installation of additional turbines at Tarbela.

Mr. McNamara then inquired about the present plans for building the Left Bank Outfall Drain (LBOD) in Sind. He was told that the consultant's study had been reviewed and WAPDA had made a proposal for a first stage project. The Government was concerned about the cost of the project which for the whole project may be as high as $22 billion, and at this price, the project could not be justified.

There was some discussion of Pakistan's need for increased fertilizer production. At the moment the country is importing 1.2 million nutrient tons of fertilizer at a cost of close to $300 million per year. Given Pakistan's gas reserves it would be much cheaper to produce this fertilizer domestically. The Finance Minister reported that Dawood Hercules was going ahead with its expansion plans for the Sheikhupura plant, and that plans for a second plant were under consideration. There was some discussion of Dawood Hercules' problem of repaying foreign exchange loans taken out prior to the 1972 devaluation of the ruppee and its problem of distributing a fair divident to its American shareholders. The Minister of Finance pointed out that DH's pricing formula was being reviewed, while the problem of repayments of predevaluation foreign exchange loans was common to many companies in Pakistan. This led to a brief discussion of the comparative merits of public and private enterprises. The President suggested that Pakistan was persuing its policy of denationalizing companies taken over by the previous regime. Two light engineering companies and one shipping line had already been divested. PECO had been offered to its original owners but they had not responded. The Minister of Finance added that some of the units may just be too big for the private sector and it may be necessary to keep them as public enterprises. The solution in such cases would be to improve the financial situation and the company management.

In reply to a question from Mr. McNamara, the President explained Pakistan's new population plan which in his views should bring the population growth rate from 2.9% down to 2.7% by the end of 1983 and should stabilize Pakistan's population at 145 million. Mr. McNamara agreed that this was an attainable goal provided an aggressive program for population control was implemented. Pakistan's hugh agricultural potential could certainly support a population of 145 million.

cc: Mr. McNamara's Office
Messrs. Hopper, Benjenk, Wiehen, Clements

WESiebeck:vb

Memorandum for the Record April 18, 1981

Wolfgang E. Siebeck, Resident Mission, Islamabad

Mr. McNamara's Meeting on the Agriculture Sector on March 30 at 9:00 a.m.

Mr. McNamara met with a group of GOP officials on the agriculture sector on March 30, 1981. Mr. Ejaz Naik, Secretary, Planning and Development Division led the discussions on the Pakistani side which also included Mr. A. Sami Qureshi, Secretary, Ministry of Food and Agriculture, Dr. Amir Mohammad, Chairman, PARC, Mr. Jamil Nishtar, Chairman, Agricultural Development Bank of Pakistan, Dr. Jawaid Azfar, Joint Chief Economist, Planning and Development Division, Mr. Wahab Sheikh, Secretary, Ministry of Water and Power, Major General Fazle Raziq, Chairman, WAPDA and Mr. Ihsan-ul-Haq from the Pakistan Embassy in Washington. Messrs. Hopper, Benjenk, Lafourcade and Siebeck were also present.

Mr. Naik opened the meeting with a review of the recent performance of the agriculture sector which had grown by 4.2% annually over the last three years compared with 1.5% p.a. in the early 70's. He cited the following production figures for Pakistan's major crops:

	1976/77	1980/81
Wheat (million tons)	9.1	11.4
Rice (million tons)	2.7	3.0
Cotton (Million bales)	2.5	4.2
Cane (million tons)	29.5	32.1

Total food production had doubled between 1967 and 1981 which compared favorably with India's performance which had increased food production over the same period by 47%. Naik added however that India's irrigated agriculture had performed much better than Pakistan's during these years.

Per acre yields in Pakistan were still low for most crops. Considerable increases were possible under irrigated conditions. However, increases in the supply of irrigation water would further exacerbate the problem of water-logging. In areas affected, water-logging had led to a steep decrease in production. For want of funds, Pakistan had not been able to deal with the problem of water-logging effectively. Other routes towards increasing yields had been tried with some success. The Government had succeeded in increasing the application of fertilizers through price subsidies. This however, had resulted in a untenable burden on the budget and had induced wastage. Last year's increase in fertilizer prices as a result of a reduction in the subsidy had affected fertilizer offtake. However, this was expected to be a temporary phenomenon. The Government was determined to live up to its commitment made to the Bank and the IMF to eliminate fertilizer subsidies by 1985.

Increases in input prices would generally require an increase in Government procurement prices. While so far procurement prices for major crops had not reached international parity prices, this could happen in some instances soon, at which point it would become necessary to subsidize exports. This had to be avoided at all costs, and every effort was therefore being made to help farmers to increase yields.

Mr. Sami Qureshi provided details on the Government's support measures for the farmer. Since land and water supply were limited, a priority was better water management. On-Farm Water Management programs had been launched with considerable success which were aimed at clearing water courses below the Mogha, land leveling and the construction of pukka nukkas. This should reduce the presently very high water losses of 40% of total supply. Under a crash program the Punjab Government had cleared with the assistance of farmers some 10,000 water courses in 1979/80 and expected to clear another 10,000-12,000 water courses this year.

Timely provision of fertilizers was a key factor in the farmer's efforts to step up production. In 1979-80, 1.044 million tons had been consumed; this represented an increase of 19% over the previous year. For this year, an increase of 15% had been planned for; because of the increase in fertilizer prices announced in February 1980, offtake during the last kharif season had however been 7% lower than last year. The rabi offtake had been higher than last year yet fell considerably short of the expected 15% increase. In reply to a question from Mr. McNamara, Mr. Qureshi agreed that lower offtake may to some extent be due to greater efficiency in fertilizer application which could be a result of the price increase. There had definately been an improvement in the N;P application ratio. It was also important to note that reduced fertilizer offtake had not led to decreases in yields. A recent decrease in production of IRRI rice was due to the increased fuel costs for irrigation pumping. Again in reply to a question from Mr. McNamara Mr. Qureshi explained that Pakistan had still to import 40% of its fertilizer needs. While domestic production was on the increase due to added capacity, the deficit was likely to widen further as consumption grew proportionately faster.

The long time practice of providing free aerial spraying to farmers had been discontinued a year ago. It had primarily benefited large land owners. The cost of pesticides would not be borne by the beneficiaries. Only the aircraft was being provided free by the Government.

Credit to farmers had increased considerably. In addition to the Agriculture Development Bank and the Cooperative Bank all commercial banks were now required to provide credit to farmers which was interest-free for farmers holding less than 25 acres under rain-fed conditions or 16 acres under irrigation.

The Government had also stepped up its efforts to produce quality seeds locally. Three seed production plants were nearing completion in Punjab and one in Sind.

Considerable efforts had gone into improving extension services. Extension agents had been provided with transport and training and now had to look after a reduced number of farmers and areas (1/3 to 1/4 of what they handled previously). Communications to farmers particularly through radio had been given a key role in this effort.

One area for a concerted Government effort was Pakistan's growing deficit in edible oils. 255,000 tons would be produced this year against 350,000 tons required. The annual deficit was presently growing at a rate of 50,000 tons per year. Domestic oil production was primarily from cotton seed. PARC had launched a research program into oil seed production but prospects for self-sufficiency were remote.

Mr. Wahab Sheikh discussed the problems of Pakistan's irrigation sector. While Tarbela had dramatically improved supplies and could now cover deficiencies in February and March, water-logging had become worse. Previously, the Government had tried to attack this problem through integrated programs which included reclamation works. These schemes were too costly to be replicated on a large scale. Following a recent policy change the Federal Government was now limiting its intervention to the financing of drainage schemes while reclamation had to be financed by the beneficiary farmers. In Sind, drainage works, in the absence of natural drainage would require the construction of the Left Bank Outfall Drain (LBOD). Because of the huge cost of this project WAPDA had prepared a reduced project which would evacuate 4,000 cusecs. The first 35 miles at the down-stream end had already been completed. The first phase program costing $400 million would extend the drain but not provide any appurtenant drainage schemes. (A later discussion with representatives of the Government of Sind on March 31 concluded that the provision of the drain alone would already permit reclamation of some land and could halt the further decrease of agriculture production of large areas threatened by water-logging. It may therefore be possible that the construction of the drain alone would have a sufficient economic rate of return).

The Chairman WAPDA elaborated further on the water-logging problem stating that out of a total of 35.4 million acres, 21.7 million acres were threatened by water-logging and/or salinity because the water table was between 0-10 feet below the surface, while on 6.7 million acres it was as high as 0-5 feet.

So far the Government had handled the water-logging problem selectively. Costs had been high, and in fact too high to permit a nation-wide drainage and reclamation program within the forseeable future. A strategy had recently worked out, and a proposal was waiting for the approval from the President of Pakistan.

Mr. McNamara pointed out that the Bank was ready to help Pakistan resolve this difficult problem but that a project with a total cost of $22 billion was unlikely to find financing nor to be economically justified.

Dr. Amir Mohammad reviewed Pakistan's recent attempts to build an agricultural research capacity. National disasters, in particular crop diseases had forced Pakistan to pay more attention to research. He pointed to the need for a close link between extension services and researchers to help close the yield gap in Pakistan's agriculture production which still amounts to 75-80%. One of the serious attendant problems would be water-logging where he suggested that Pakistan set up an international research institute with the help of a consultative group for national agricultural research. Livestock research had also high priority. For instance, Pakistan was running out of high quality wool for its carpet industry, to which better sheep breeding methods would be the answer. The brief statement received from Dr. Amir Mohammad after the meeting is in Annex 1.

Mr. Jamil Nishtar reviewed the provision of credit for agriculture. Its role had long been unestimated, and only recently it had been realized that agriculture credit was an important vehicle in order to transfer technology particularly to small farmers. Therefore ADBP was putting its major emphasis on, and providing 50% of its credit, to small farmers. It had set up a system of mobile credit units which permitted to contact the farmer on the field and to reach those who would never walk into a bank branch office. Collection rates for this supervised credit scheme were as high as 100%. Of course, administrative costs to the bank were higher than for credit distributed through a branch office system (7% instead of 5%).

In reply to a question from Mr. McNamara, Mr. Nishtar explained that only the commercial banks were providing loans upto Rs.6,000 interest-free. ADBP was still charging interest on all its loans.

cc: Mr. McNamara's Office
Messrs. Hopper, Benjenk, Wiehen, Clements, Yoon, Nottidge

WESiebeck:vb

30.3.1981

PRESENTATION TO MR. McNAMARA, PRESIDENT, WORLD BANK
BY DR. AMIR MUHAMMED, CHAIRMAN, PARC.

The Chairman, PARC/Secretary, Agricultural Research Division stated that Agricultural Research, which is a crucial input for adequate agricultural production, had been relatively neglected in the past. Only scattered adaptive research was done on a few important crops in the provincial institutions, but the national capability in tackling complex problems of the agriculture sector was not developed adequately. Major emphasis has been laid on development of the national agricultural research system in the country during the last 2-3 years which has already made a significant impact on the production of some agricultural commodities, notably wheat. The research capabilities in the country will get a major boost with the implementation of the forthcoming IDA credit of $ 40 million for the agricultural research development project.

2. After describing several aspects of the agricultural research system, the Chairman, PARC stated that Pakistan's major problem in agriculture is scientific management of the irrigation water. This requires multidisciplinary research on consumptive use of water, crop physiology under drought conditions and water management techniques to optimize crop production from limited water availability etc. Besides, the physical and biological aspects, the socio-economic aspects of irrigation water management also play an important role in optimizing the use of irrigation water for crop production. Pakistan has the largest irrigated plain in the world and suffers from the problems of waterlogging and salinity which have been created largely due to improper management of the water resources. He strongly urged that the Consultative Group of International Agricultural Research (CGIAR) of which the World Bank is the major sponsor, should consider the possibility of establishing an International Agricultural Research Centre on Water Management in Pakistan, which will be a major boost

to the irrigated agriculture round the world, particularly to Pakistan and the neighbouring countries. Besides, the establishment of a modern international research institution in agriculture sector will have a significant effect on upgrading the general level of agricultural research in Pakistan as has happened in many other developing countries where the International Agricultural Research Centres have been located. He stated that GOP will provide all the necessary facilities for the establishment of an International Water Management Research Centre if the proposal is agreed in principle.

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Memorandum for the Record April 18, 1981

Wolfgang E. Siebeck, Resident Mission, Islamabad

Mr. McNamara's Meeting on the Energy Sector on March 30 at 10:15 a.m.

Mr. McNamara met with the Minister of Petroleum and Natural Resources, Major General Rao Farman Ali, Minister of Water and Power, Raja Sikandar Zaman, the Secretary Water and Power Mr. Abdul Wahab Sheikh, the Additional Secretary Petroleum and Natural Resources Mr. M. Masihuddin, the Chairmen WAPDA Major General Fazle Raziq, PAEC Dr. Munir Ahmed Khan, and OGDC Mr. Iftikharuddin Ahmed. Messrs. Hopper, Benjenk, Lafourcade and Siebeck were also present.

The Minister of Petroleum and Natural Resources who had only been appointed to this position two weeks earlier highlighted the importance of developing Pakistan's indigenous fuel resources in order to curtail Pakistan's growing import bill for energy which this year would reach $1.6 billion. By 1985 Pakistan would be spending its entire export earnings on fuel.

In his Ministry which was responsible for gas and oil, efforts were being made to step up production of natural gas. While previously this resource had been considered large enough to last for years, the need for load shedding in 1980 had led to a reassessment of the situation. In order to find more gas, foreign companies had been asked to drill for gas in Pakistan.

Production of domestic oil had fallen far short of targets. While he agreed with Mr. McNamara that oil prices critically determined the willingness of companies to invest in exploration, a fact which the Government had been aware of, in agreeing to linking the price of new oil to border prices, the Minister felt that the low production of "old oil" by Pakistan's rupee companies (POL and PPL) was not a function of low prices. Prices for both companies had been fixed on the basis of mutual agreement and both companies had the option to step up output and thus reduce unit cost. In reply to Mr. McNamara's suggestion that Pakistan could hardly afford battling over a few rupees per barrel of locally produced oil while paying several times the price for imported oil, the Minister agreed that Pakistan would have to review the prices being paid to the rupee companies. Mr. McNamara added that the national interest in this case may outweigh any legal considerations of holding these companies to their contractual relations with the Government.

Mr. Masihuddin pointed to Pakistan's efforts to reduce imports of kerosene through substituting natural gas for it. It was now essential to speed up the expansion of the northern gas pipeline system, and the Bank had unfortunately not moved on this despite repeated requests from the Government.

Mr. McNamara inquired where the additional gas was to come from and more generally if the Ministry had prepared long term projections for energy demand and supply. Mr. Masihuddin explained that it was not possible to plan in the oil sector, not knowing the outcome of ongoing wildcat drilling. Supply projections for oil therefore existed only for one year. However, some work had been done for longer term demand projections. Mr. McNamara did not accept this explanation, suggesting that even in the oil sector one would have to work out a long term plan including investment costs to develop the sector. This may require a series of assumptions and sensitivity analyses. At present the Ministry was "flying blind" and he could not see how the Bank could step up its support for this sector without the immediate preparation of an energy plan. The Minister promised that this would be undertaken without delay.

The Chairman OGDC added some details on OGDC's production program in Toot and the problems encountered in that reservoir.

The discussion then switched to hydro power and nuclear energy. After a brief introduction by the Minister and the Secretary of Water and Power, the Chairman WAPDA explained WAPDA's long term plans for increasing generation and transmission capacity. Copies of the various slides he displayed during the meeting are in Annex 1. He stated that WAPDA could at present not fully meet demand. Load shedding became increasingly necessary particularly in late spring when demand for refrigeration and air conditioning was growing while reservoir levels were low. While this kind of consumption was difficult to justify in a developing economy, for political reasons WAPDA had no choice but to meet it.

Explaining WAPDA's future generation program he explained that while Kalabagh will add generation capacity it will also permit to further increase generating capacity at Tarbela. Once Kalabagh had been completed, flows from Tarbela could be fully reregulated at Kalabagh and this would permit the installation of turbines at tunnel 4 at Tarbela.

WAPDA was also investigating other hydro sites as well as power generation from coal and lignite in Baluchistan. Its total investment program for generation until 1990 would require $4.5 billion and another $6.5 billion for transmission facilities.

The Chairman PAEC gave a comprehensive review of Pakistan's long term energy balance. On the basis of recent trends in energy consumption Pakistan would encounter a severe energy shortage in mid 80's. Once all other resources including hydro-power had been tapped, the only remaining option would be nuclear power. Because power generation from nuclear fuel compared favorably with that from imported oil, particularly since Pakistan had uranium deposits, the nuclear option had to be considered to meet the power shortage of the 80's.

Pakistan's economic progress critically depended on availability of energy. Present per capita consumption was extremely low (0.2 ton of coal equivalent (TCE) versus 12 TCE in the U.S.) and the energy resource base was limited (Annex 2 Fig. 1 and 2). Total fossil fuel reserves including gas, coal and oil, even if liberally estimated, were only 1230 million TCE (15 TCE per capita, corresponding to only one and a half years of per capita consumption in the U.S.) of which not more than 43% could be considered as proven. Similarly of the 20,000 MW theoretical hydro potential in Pakistan at best only 8,000 to 10,000 MW may be considered as economically exploitable. Present installed hydro generating capacity in Pakistan was about 1650 MW. If all extensions of hydro capacity now planned for completion within the next ten years materialize, hydro generating capacity in 1990 would be 4500 MW leaving only 3500 to 5500 MW of the economic hydro-potential for future exploitation.

Mr. Khan pointed out that the average GNP growth rate in Pakistan during the last 20 years was about 5.6% per annum while the corresponding growth rates of electricity and commercial energy consumption were higher by factors of 2.2 and 1.37 respectively. Recent World Bank projections till 1990 for the Oil Importing Developing Countries (OIDC) stipulated an average GNP growth rate of 5.1% with the demands of electricity and commercial energy growing at 1.67 times and 1.24 times faster than the GNP. Using the World Bank's GNP growth rate estimates of 5.1% for OIDC for the next 20 years, the required electricity generating capacity in Pakistan in the year 2000 would be about 19500 MW. The corresponding figures for 4.0% and 6.0% growth rates would be 14000 MW and 25,500 MW respectively (Annex 2 Fig. 3). Of these requirements about 6500 MW could perhaps be met by hydro, 500 MW by coal (if Lakhra lignite reserves could be successfully employed for power generation) and 3000 MW by natural gas (by allocating some 150-200 million TCE out of the 400 million TCE of proven gas reserves to the life time operation of the installed gas-fired capacity). Thus in the year 2000 Pakistan would still face a shortfall in power generating capacity of a minimum of 4000 MW at very low growth rate upto 15,500 MW at a moderate growth rate.

He further pointed out that if this shortfall is to be avoided without resorting to alternate sources of power generation, the country would have to be content with an average GNP growth rate of only 3.0% per annum. Considering the expected population growth rate of 2.5% per annum this would imply practically no improvement in GNP per capita over the next 20 years. Since such a low GNP growth rate was not acceptable economically and socially, and also inadvisable politically, Pakistan should embark on a program of energy development aimed at:

(1) expanding its energy resource base through stepped up exploration of oil and gas on a priority basis;

(2) confirming more coal reserves together with seeking an early solution of the technical problems now being faced in the large scale utilization of its poor quality coal reserves;

(3) promoting the use of any available soft technologies in rural and remote areas to relieve pressure on oil;

(4) bringing in nuclear power to fill the gap in power generating requirements left unattended by fossil fuel and hydro resources.

Mr. Khan compared the cost economics of a 600 MW nuclear power plant proposed to be built by 1988 at the CHASHMA site in northern Pakistan with that of an equivalent oil-fired capacity. He pointed out that although construction of a nuclear plant would cost about twice as much as that of an oil-fired plant ($1563 million versus $678 million, in 1988 dollars), power generation cost in 1988 from the nuclear plant would be only 58 mills/kWh as against 158 mills/kWh from the oil-fired plant fueled with imported oil (Annex 2 Fig. 5). Moreover, the local share in the power generation cost will be as high as 50% for the nuclear plant whereas it will be only 8% in the case of the oil-fired plant. If cumulative payments (present net worth of payments through 1988) on investment and operating costs of the two types of plants were compared the higher capital investment of the nuclear plant would be off-set by the higher fuel costs of the oil-fired plant within one and a half years (Annex 2 Fig. 6, 7, 8). Taking 40 years as the working life of each plant the cumulative discounted cost (in 1988 dollars) of the nuclear plant will be only about 3000 million dollars as against 17,500 million dollars for the oil-fired plant fueled with imported oil. He indicated that even if the fuel oil price is subsidized to the extent of 46% the break-even period of the nuclear and oil-fired plants would only increase from 1.5 years to 4 years and the cumulative discounted costs would still differ by a factor of 2 in favour of the nuclear plant. He felt that an oil-fired plant, even if supplied free, would still be uneconomical compared to a nuclear plant because of very high recurring costs of expensive fuel oil. This conclusion, he said, was in line with those arrived at by other countries, both developing (such as South Korea) and developed (such as France), and the IAEA in recent studies.

Referring to the phasing of the expenditure for the proposed 600 MW nuclear power plant, Mr. Khan mentioned that the project would require (Annex 2 Fig. 10) an allocation of about U.S.$55 million in 1982/83, U.S.$175 million in 1983/84 and between U.S.$300 and 375 million in each of the following four fiscal years. The total expenditure from 1982 to 1988 on the plant together with fuel inventory for two years would be U.S.$1563 million.

cc: Mr. McNamara's Office
Messrs. Hopper, Benjenk, Wiehen, Clements, Bourcier, Lamson-Scribner

WESiebeck:vb

Memorandum for the Record April 20, 1981

Wolfgang E. Siebeck, Resident Mission, Islamabad

Mr. McNamara's Discussions with N.W.F.P. Officials in Peshawar on
MARCH ~~April~~ 29 at 11:00 a.m.

Mr. McNamara met with Chief Secretary Captain U.A.G. Isani after his arrival in Peshawar at 11:00 a.m. Also present were Mr. A. Rauf Khan, Secretary Irrigation, Sahibzada Muhammad Ayaz, Secretary Agriculture, Mr. Imtiaz Ahmad Sahibzada, Additional Chief Secretary Planning and Development, Mr. Karim Khan, General Manager (Water), North WAPDA, Mr. Zaman Khan, Project Director, SCARP Mardan. Messrs. Ejaz Naik, Hopper, Benjenk, Lafourcade and Siebeck were also present.

The meeting focused on the revised SCARP Mardan project that Mr. McNamara was to visit by car later in the day. Mr. Zaman Khan, Project Director SCARP Mardan explained the relevance of the project to the economy of NWFP. Out of a total agricultural area of 3.75 million in NWFP, 1.5 million could be irrigated. 50% of the irrigable area was in the Peshawar/Mardan districts where the IDA project was located.

The original project area had encompassed the lower and upper Swat command areas. The lower Swat canal with its head works at Munda had been built in 1885 for a capacity of 800 cusecs but was now operating at 1000 cusecs with command area of 136,000 acres. The upper Swat canal had been completed in 1918 with a design capacity of 2,400 cusecs to cater to a command area of 275,000 acres. However, because of the insufficient size of the Benton tunnel, present capacity was only 1,800 cusecs.

Cropping intensities were insufficient and yields low (wheat 1.4 instead of 2.6 t/ha, sugar 31.3 instead of 50.1 t/ha and orchards 8.3 instead of 18.5 t/ha). The water-logging problem was severe because the water table was 2 feet below the surface in most places, and 25,000 acres were already out of production. Existing surface drains were insufficient and maintenance had been neglected.

The SCARP Mardan project had been prepared by WAPDA in 1977 to cope with these problems. The project had to be revised recently because of budget constraints. The revised project omitted the entire upper Swat canal and command area. In the lower Swat command, the area to be serviced by sub-surface drains had been reduced from 110,000 acres to 75,000 acres after the geological survey had determined that sub-surface drains would not be effective for some areas because of the presence of an impervious subsoil layer. The project would first improve and rehabilitate the lower Swat canal and open drains while tile drainage would only be installed in the last three years of the 7-year implementation period. Improvement of the lower Swat canal would increase its capacity to 18,000 cusecs. Moghas and water courses would be redesigned and more effective water use would be assured through the creation of water users association on which NWFP had just passed a law.

In reply to a question, Mr. Zaman explained that clearing of surface drains would improve productivity of the land, and that only tile drainage would fully restore productivity. However, since product prices had considerably increased since project appraisal, already the clearing of surface drains would have an adequate rate of return. Land values had risen fast particularly as a result of increased workers' remittances flowing into NWFP. One acre was now selling for Rs.30,000 to 40,000. While increased land values should usually cover the cost of drainage works, it had so far not been possible for the Government to recover its investment cost from the landowners. Water rates were still very low despite a 25% increase of the "abiana" last year. Rates were not linked to consumption, water was not metered, and there was no incentive for the farmer to save water.

Again in reply to a question the Secretary Agriculture explained that no research had yet gone into possibilities of reducing water-logging and salinity by agricultural means (e.g. salt resistance plants). He also replied that Tarbela has so far not raised the water table in lower lying areas but some seepage was bound to occur although it would mainly drain back into the river bed.

In a subsequent meeting with the Governor of NWFP, the performance of the industrial sector was discussed. The Governor felt that private industry had still not recovered from the shock of extensive nationalization under the previous elected Government. He decried that there was still too much Government control today and that this was one of the main impediments to a quicker recovery of the private sector. He then referred to the magnitude of the refugee problem in NWFP. 1.4 million refugees had now been registered. The main problem was the additional livestock they had brought along (4 heads of livestock per refugee). Tensions with the local population existed although no serious incidents had been reported. Some political parties were exploiting the situation, appealing to the parochial sentiment that Pakistan should not offer refuge. Of late, refugees had arrived from parts of Afghanistan which previously had not been affected by the fighting. He feared that 2 million refugees for the total of Pakistan would be exceeded before June. About 65% of all refugees were Pathans, and the share of women and children amounted to 60-70% which indicated that the war effort was being sustained by those staying behind in Afghanistan.

cc: Mr. McNamara's Office
Messrs. Hopper, Benjenk, Wiehen, Clements, Yoon

WESiebeck:vb

Memorandum for the Record April 18, 1981

Wolfgang E. Siebeck, Resident Mission, Islamabad

Mr. McNamara's Meeting on the Industrial Sector on March 30 at 11:45 a.m.

Mr. McNamara met with the Minister of Production, Lieutenant General Saeed Qadir, Secretary Production Mr. Elahi Bux Soomro, Secretary Industries Mr. Iqbal Saeed, Additional Secretaries Production Messrs. M.I.K. Khalil and Kunwar Idrees, and Additional Secretary Industries Dr. A.K. Tanveer. Messrs. Hopper, Benjenk, Lafourcade and Siebeck were also present.

The Minister of Production started the discussion by pointing to the improvements experienced in the public industry sector over the last three years. The sector had suffered in the past from insufficient financing and poor management. There was no question that it should be at least as well managed as the private sector. The World Bank had so far given little assistance to the sector but he hoped this would change. Among the steps so far taken by the Government had been the attempts to divest some of the public units. Some units considered non-viable had been closed down. Response to the Government's various offers to the original owners to take back their units had been slow. In the Minister's view this was due to the private entrepreneur's expectations to amortize investment over 24 months. Some were apparently also waiting for the Martial Law regime to end while ignoring that the same regime had in fact done everything to protect private investment. Mr. Hopper suggested that the private sector may also be reticent because licencing procedures and price controls were not conducive to provide initiative. There may also be too many higher yielding investment opportunities outside Pakistan particularly in the Middle East. Mr. McNamara concluded that the Bank had no ideological preferences. Both private and public industry should operate in parallel. However, public industries had to be operated efficiently. He also agreed that recovery of private investment in two years was socially irresponsible. However, Pakistan had an important private sector, and the sector should be given full support to enable it to fully play its role.

The Minister than argued that public industry was socially more responsible because it did not aim for inordinate profits. It was ready to amortize investments over a reasonable period. As an example he quoted the National Logistics Cell which he was still heading as Quartermaster General and which had introduced an element of wholesome competition into the road transport sector thus containing prices for transportation services demanded by the private trucking industry and reducing transport cost to the economy.

The Minister of Industries briefly outlined the subsectors in which private industry has been able to operate in Pakistan. Over recent years, sector performance had been poor mainly due to over-aged equipment, poor maintenance, and difficult labour management relations. The Secretary of Industries added that investment activity had recently picked up. Surveys showed that 48% of all licences for new investments were being implemented. It was hoped that industrial production would grow by 10% next year. Efforts would be made to increase foreign exchange financing to the private sector at longer repayment periods than presently available (7-10 years).

cc: Mr. McNamara's Office
Messrs. Hopper, Benjenk, Wiehen, Clements, Rowat

WESiebeck:vb

Memorandum for the Record April 20, 1981

Wolfgang E. Siebeck, Resident Mission, Islamabad

Mr. McNamara's Meeting on Education and Health on ~~April~~ March 30 at 2:30 p.m.

Mr. McNamara met with Mr. Muhammad Ali Khan of Hoti, Minister of Education, Dr. Nasiruddin Jogezai, Minister of Health and Social Welfare, Mr. Abdul Ali Khan, Secretary Education, Mr. S.B. Awan, Secretary Health, Mirza Musheer Ahmed, Deputy Educational Adviser, S. Hassan Shah, O.S.D. Ministry of Education, Dr. M. Afzal, Adviser, Higher Education and Chairman University Grants Commission. Messrs. Ejaz Naik, Hopper, Benjenk, Lafourcade and Siebeck were also present.

The Education Minister highlighted Pakistan's new education policy which was based on Islamic faith and patriotism. All education facilities other than English medium schools had been nationalized in 1972 and education in the nationalized schools had since been free. Private English medium schools catered primarily to the well-to-do. In the nationalized schools English teaching was still compulsory after grade 6. The number of universities has since been increased from 8 to 18, and curricula had been made more skill oriented and less theoretical.

Education facilities could presently not cope with population growth. Female education was falling far behind targets. Parents prefer their daughters to stay at home for economic and social reasons, and in villages it was even difficult to have parents send their sons to school. Mosque schools may make a difference in future. They would be co-educational and he hoped this would allow Pakistan to reach an enrolement ratio of 100% for boys and 91% for girls by the year 2000. (Present national average 33% for girls and 77% for boys). Drop-outs were one of the biggest problems. In families where the head of the family had migrated to the Middle East, the tendency for dropping out was higher.

Pakistan had spent less than many other countries on education. The present share of 1.7% of GNP was expected to go up to 3.2%. He also hoped that the private sector would come back into the education field. The Government was encouraging the creation of private schools although it was unable to denationalize earlier nationalized schools because of teachers' opposition.

Pakistan's prime need in the education sector was to train more science teachers and build research facilities. Pakistan had also to replace skilled labour it was loosing due to migration; this called for stepped up training facilities expecially at the middle level (operators, technicians, engineers). Agricultural and agrotechnical education had been of unsatisfactory quality so far.

Pakistan's new family welfare plan called for population education in existing facilities, and his Ministry was presently preparing a curriculum. A mass literacy program for adults which would use the mosques after evening prayers was also under preparation. Finally, education of the handicapped had to be expanded.

Mr. McNamara pointed out that it would take a considerable increase from Pakistan's present spending on education of 1.7% of GNP if it wanted to stop producing more illiterates every day. It was in fact remarkable that the country could do all that it was doing with such limited funds. Parents objections to co-education was clearly a factor further increasing the cost of education.

The President of the Universities Grants Commission added that there was co-education in primary schools in urban areas but segregation of sexes became necessary in lower and higher secondary schools. Universities again were co-educational, but a recent Cabinet decision provided for the creation of womens' universities with full academic programs in order to give women equal access to university education.

The Minister of Health read a prepared brief on the health situation in Pakistan and requirements for foreign assistance (text of the statement in the Annex). In the ensuing discussion the question was asked to which extent health facilities would be used for the new family welfare program. Staff replied that only some surgical facilities would be common. Only over the longer run was there a possibility for the use of health centers by population workers. The Minister agreed to Mr. Hopper's suggestion that health services would have to closely cooperate with the population planning staff.

The death rate in Pakistan was still at 13 to 14 per thousand. 25% of deaths were due to gastro-intestinal diseases. Bilharzia was not a problem while Malaria was being increasingly brought under control. Infant mortality remained high although the bulk of children were still breast fed.

cc: Mr. McNamara's Office
Messrs. Hopper, Benjenk, Wiehen, Clements, Rees, Ms. Maraviglia

WESiebeck:vb

Memorandum for the Record April 20, 1981

Wolfgang E. Siebeck, Resident Mission, Islamabad

Mr. McNamara's Meeting on Population Matters on March 30 at 4:00 p.m.

Mr. McNamara met with Dr. Attiya Inayatullah, Adviser to the President on Population matters, Mr. Ejaz Naik and Dr. Roshan. Messrs. Hopper, Benjenk, Lafourcade and Siebeck were also present.

Mr. McNamara opened the discussion by inquiring how Pakistan had been able to take the lead role in population planning in the 1960's while its population program had since lost its effectiveness. Dr. Inayatullah explained that there had been too many policy changes and the program had been used for political purposes. Doubtful methodology had been applied such as the contraceptive inundation program. The program had come to a complete halt in 1977 and all funds that had been left had since gone for salaries. While the program had failed, there had however been some encouraging signs: recent surveys had shown that there was an 85% awareness of family planning methods and a 75% knowledge of at least one contraceptive method. This was an encouraging improvement over the end 60's when family planning had been entirely tabooed in Pakistan.

Pakistan's new family welfare plan had been drawn up against considerable odds. The present staff of the population division amounted to 16,000 and had to be cut to 8,000. This had caused a severe morale problem. The new plan tried to retain proven ideas but was more realistic than its predecessors. It would run over 20 years and was not trying to achieve immediate results. Family planning could only be successful in the longer run since it necessitated a change in behavior patterns. Nonetheless, it should be possible to reduce the present birth rate of 2.9% p.a. to 1.9% p.a. by the year 2000.

The first two years of the program would be experimental. It contained a core program which was based on 1,250 community welfare centers which would be complemented by 2,000 existing health centers. The family welfare centers would have mobile units with 20 outreach workers per center. The plan was trying to involve traditional health agents such as the hakim. It would also involve major agencies such as Ministries, WAPDA, Fauji, Pakistan Railways and Pakistan Steel in its extension efforts. The population education program was being prepared for use in existing educational facilities.

Mr. McNamara stated that he was impressed by the realism of the new program. He was aware of the social and religious constraints with which the program would have to cope and expressed the hope that the political will was there to overgome these constraints. Dr. Inayatullah added that President Zia was fully supporting the program.

cc: Mr. McNamara's Office
Messrs. Hopper, Benjenk, Wiehen, Clements, Ms. Maraviglia

WESiebeck:vb

Memorandum for the Record April 20, 1981

Wolfgang E. Siebeck, Resident Mission, Islamabad

Mr. McNamara's Meeting with the Finance Minister on March 30 at 5:00 p.m.

Present in the meeting were Finance Minister Ghulam Ishaq Khan, Mr. H.U. Beg, Secretary Finance, Mr. Qazi M. Aleemullah, Joint Secretary (External Finance), Mr. Ejaz Naik, Secretary, Planning and Development and Economic Affairs Divisions, Dr. Jawaid Azfar, Joint Chief Economist, International Economic Section, Mr. Rahatullah Khan, Joint Secretary, Economic Affairs Division and Mr. Ihsanul Haq from the Embassy of Pakistan in Washington, Messrs. Hopper, Benjenk, Lafourcade and Siebeck were also present.

Mr. McNamara reviewed the impressions he had received from the various discussions he had had in the morning and afternoon in Islamabad. He had been impressed with the improvement in the agricultural sector. By contrast, the energy sector had left him with considerable concern. Past performance had been disappointing, and yet no program had been established for the future. Only in the power sector there was now an investment plan to meet future power needs. Also in the industries sector he had discerned a lack of planning capability. In the social sectors he had been impresseed with the new approach and program for population planning which was quite realistic; but even if the new program was successful, the problem of population growth remained huge. Yet it was still the best program one could think of in the present situation. By contrast, plans for the education sector were quite unrealistic; with low literacy and low current and capital funding it was difficult to see how Pakistan could reach a 100% enrolement ratio by 2000. Mr. Hopper added that the possible lack of coordination between the health and population programs could be costly. It seemed to put one agency in charge. Also, the new population welfare plan should not move too far away from the goal of population control. The Bank was ready to support the new program financially and would be ready to help also with the technical assistance.

The Minister explained that originally, he had favored making the health division responsible for the over-all program. However, majority of the staff of that division was not concerned with population control. He entirely agreed that a close cooperation was critical. He added that the commitment of the Government to the plan was total.

On energy the Minister reported that the Government had set up a national energy policy committee (NEPC) in May of last year. Its purpose was to formulate short and long term energy policies and to review the progress of implementation of such policies at the national level. It was chaired by him and was meeting quarterly. The Director General of Energy Resources as a member and Secretary of the Committee had recently prepared a first quarterly report which would be reviewed in the next committee meeting. The Minister agreed that there was a regretable lack of planning capacity in the Ministry of Petroleum but he would make sure that a multiannual energy plan would be prepared as the Minister of Petroleum and Natural Resources had promised Mr. McNamara in an earlier meeting. The Minister refered to earlier proposals made by the Bank for the creation of a new agency in charge of coordinating the various energy sector programs and felt that this was a function the NEPC would perform.

With regard to energy pricing he stated that "old oil" prices had been negotiated with the two rupee companies (POL and PPL). These contracts had been freely negotiated and he could not see why the Government should respond to the request for higher prices.

With regard to Pakistan's longer term balance of payments projections (the attached projections had been prepared at the request of Mr. McNamara by the Planning and Development Division) the Minister felt that Pakistan should not spend the projected amounts on imports of vegetable oils and fertilizers but rather step up its domestic production which with the proper lead time could have an impact as early as 1985. The setting up of the additional fertilizer units would, however, raise the problem of fertilizer pricing. New units would be so expensive that private initiative would hardly be interested to produce fertilizers at present prices paid to domestic producers. With regard to the Bank's proposal to price fertilizer output at border prices the Minister felt that it would be impossible to tax away windfall profits of existing producers who could easily hide such profits in their income statements. Also, an excess profits tax would give wrong signals and act as a disincentive to improving efficiency. He was wondering how efficiency could be built into one of the existing cost formulas so as to give an incentive to reduce fixed cost and increase production.

With regard to the power sector the Minister explained that Pakistan had to invest in order to meet the generating capacity gap building up after 1984. The options were hydropower, coal and nuclear, whereby hydropower from Tarbela would be cheapest while coal would be more expensive than nuclear. Village electrification was going ahead at far too low a speed (1,000 villages per year). 10,000 out of a total of 45,000 villages had so far been electrified. This program was of high priority as nothing could transform rural society faster than electrification.

The Baluchistan development plan had so far drawn a moderate response from consortium members and other donors. So far some $60 million had been committed; Japan, Kuwait and West Germany had shown interest. Mr. McNamara explained that the Bank was ready to participate in the development effort for Baluchistan provided projects had a satisfactory economic return. This could include financing of projects for irrigation and potable water supply. Mr. Hopper added that the aid effort for Baluchistan would be reviewed at the next Pakistan Consortium meeting. The Minister suggested that in assessing the economic benefits of projects in Baluchistan one should not ignore the cost of migration to urban areas that would be avoided through such projects.

The Minister suggested that Pakistan's IDA allocation had been the lowest in all of South Asia. While India had drawn $2.57, Bangladesh $3.10 and Sri Lanka $10.16 per capita last year, Pakistan had only received $2.13, and its share had gone down over the years. While he realized that economic performance was an element in assessing the share a country could draw from IDA he felt that Pakistan had done considerably better over the last three years than many others. At the same time net foreign assistance to Pakistan had decreased. Also, Pakistan's resources mobilization effort while still unsatisfactory, had improved considerably with annual savings reaching 12% and domestic savings 6% of GNP.

Mr. McNamara agreed that the level of IDA lending to Pakistan had been low. While China would begin to draw an increasing amount of IDA funds in future, he was however optimistic that with the overall economic improvement and the upswing in the agriculture sector, Pakistan should be receiving more lending from the Bank group. This would however, to an increasing extent consist of Bank lending for which he felt Pakistan was now credit-worthy.

cc: Mr. McNamara's Office
Messrs. Hopper, Benjenk, Wiehen, Clements, Bourcier, Burmeister

WESiebeck:vb

Memorandum for the Record April 20, 1981

Wolfgang E. Siebeck, Resident Mission, Islamabad

Mr. McNamara's Meeting with the State Bank Governor and Industrialists on March 31 at 5:00 p.m.

At the invitation of Mr. A.G.N. Kazi, Governor, State Bank, Mr. McNamara met a group of industrialists and bankers at the offices of the State Bank in Karachi. Their names are given in the Annex. Messrs. Hopper, Lafourcade and Siebeck were also present.

In a reply to Mr. McNamara's question, several speakers agreed that the investment climates in Pakistan had markedly improved over the last 18 months. While there had been little progress on investment activity until mid 1979, the private sector had since recovered from the shock of nationalizations under the previous regime. 1980 had seen a stabilization in political and economic terms and there was now "quite a revival of confidence". Incentives for the private sector to invest and expand were certainly there, and the Government's proposed Companies Law was expected to have a positive effect on future investment activity (a draft of this Law has been circulated by the Government to the private sector for comments).

One of the major impediments to a more vigorous investment activity appears to be the availability of credit, in particular, of rupee funds. Several speakers complained that under the credit ceilings imposed by the Central Bank, public enterprises were being served in priority while the private sector could not find the funds it needed. Also, the institutional credit system dominated by Pakistan's nationalized banks was too rigid to respond to the needs of the private sector and to provide credit quickly. This was particularly felt for big investments which the existing institutions had shown themselves incapable or unwilling to handle. As a result, there had been no larger investments in the private sector in recent years. Some speakers also felt that the sources of institutional credit were too limited, including a few nationalized banks, the newly established Bankers Equity Fund, the Government itself, and, for foreign exchange funds, PICIC and IDBP. As a result a private investor was almost forced into the arms of the Government to obtain loan or equity funding and this normally implied bureaucratic delays and Government influence in management.

Some speakers also felt that credit was too expensive, with the going rate for working capital at 14% and investment credit at 11%.

Governor Kazi felt that sufficient funds for both working capital and investment financing were available to the private sector within the existing credit ceilings. He had just made an additional Rs 2 billion available which so far had not been used. This had brought the total amount available to the private sector to Rs 3.5 billion.

In reply to a question from Mr. McNamara, some speakers explained that commercial banks preferred to grant working capital financing at 14% rather than investment credit at 11%. The lower interest rate for investment credit was meant as an incentive to industry for which it had long lobbyed; most agreed with Mr. McNamara's statement that this was an incentive to borrow cheap funds which were in fact not available.

Some speakers indicated that the investment climate was still suffering from the after-effects of the 1972 devaluation and the high fluctuations of hard currencies vis-a-vis the rupee which had been observed in the ensuing years. They welcomed that the Government was now carrying the foreign exchange risk on such loans. One speaker felt, however, that a 3% fee to cover this risk was unacceptably high.

Bureaucratic delays appear to hold up investments also in those cases where the Government is not financially involved. These concern the granting of investment licences, import licences and output pricing.

In the view of several speakers,pprivate industry does not get adequately rewarded. After-tax returns are low, among other things because corporate and individual income taxes leave little for the share investors One speaker suggested that dividends be tax-exempted in order to make investments in shares more attractive particularly since some Government securities yield much higher returns (29% for defense bonds) than the 8% on average paid as share dividend.

One speaker felt that labour/management relations were not conducive to more investment. Labour had been granted too many concessions under the previous regime and this meant a serious constraint to enterpreneurial initiative.

Most speakers felt that prospects for Pakistani exports were promising. Some products had shown very high increases recently (export of garments increased by 300% in one year albeit from a very low level). However, as exports of specific goods grew they would encounter import restrictions and other protectionist practices in importing countries.

Mr. McNamara concluded that Pakistan had a tremendous asset in its private industrial sector which it should allow to maximize its contribution to economic growth and exports.

cc: Mr. McNamara's Office
Messrs. Hopper, Benjenk, Wiehen, Clements, Rowat

WFSiebeck:wh

Annex I

List of Participants

A.G.N. Kazi	Governor, State Bank
Naseem Saigol	Chairman, Textile Association
Bashir Ahmad	Managing Director, PICIC
Zafar Iqbal	Chairman, NDFC
N.M. Uquaili	Chairman, PICIC
LtGen (Retd) Habibullah Khan Khattak	Chairman
Iqbal Saeed	Secretary, Ministry of Industries
Ahmed Dawood	Chairman, Dawood Group
G.M. Adamjee	Chairman, Adamjee Group
A. Zaidi	Deputy Managing Director, IDBP
Masud Karim	President, Foreign Chamber of Commerce and Industry
Rafiq Habib	Habib Group of Industries

World Bank

April 20, 1981

Memorandum for the Record April 12, 1981

Wolfgang E. Siebeck, Resident Mission, Islamabad

Meeting with Government of Sind Officials

1. Mr. McNamara met with the Chief Secretary of Sind, Mr. M. Masud Zaman, on March 31, 1981, in Karachi. Present were also Mr. R.A. Akhund, Additional Chief Secretary, Planning and Development, Mr. Manzoorul Hasan, Secretary Industries, GOSind, Mr. Abdul Karim Lodhi, Secretary Finance, GOSind, Mr. S.M. Wasim, Secretary Agriculture, Food, Fisheries and Livestock, GOSind and Mr. H.M. Dahar, Secretary Irrigation and Power, GOSind. Messrs. Hopper, Lafourcade and Siebeck from the Bank also attended.

2. Following the Chief Secretary's welcome for Mr. McNamara, Mr. Akhund gave a detailed statement on the economic importance of Sind in comparison to the rest of Pakistan on the basis of the attached three tables (Annex 1-3). Details follow in paras 2 to 7.

3. Except for sugarcane, per-acre yields of main crops in Sind had been higher than in the Punjab (Annex 4). Area and production targets for wheat, rice and cotton set for the last year of the 1978-83 five-year plan had been either reached in 1979/80 or would be reached this year (Annex 5). Some of the reasons for the relatively strong performance were:

(a) Improved pricing policies;

(b) higher water availability from Tarbela;

(c) completion of some SCARP schemes and drainage project;

(d) introduction of late sowing wheat varieties;

(e) increased fertilizer application;

(f) impact of extension efforts and media campaigns, in particular of the crash program for wheat;

(g) impact of tenancy reforms and land distribution, small and tenant farmers having a higher productivity;

(h) improved road infrastructure.

4. Many problems continue holding down production:

(a) Most of the irrigation water (94% or 42 million acre-feet) is diverted from the Indus river; its delivery schedule is inflexible. This results in a mis-match between crop needs and water availability. The integrated use of national storage facilities including two small storage facilities in Sind (Manchar and Chotiari) could permit more timely supply of irrigation water.

(b) The canal system (particularly the Sukkur Barrage) was not constructed to carry the present discharge; over the years demand has raised discharge far beyond the original constructed capacity. The canal embankments have been raised and strengthened but not to the designed specification; moreover regulators which were built for a smaller discharge are impeding the efficient flow and regulation of water. This results in water inefficiency in the canals leading to uneven flows, mal-distribution within the canal reach and acute shortage in the tails. The withdrawal and capacity mis-match accentuates the unreliability of supply, influences farmers to use low and sub-optimal technology (extensive farming with low investment and, therefore, risk) and makes them less responsive to adoption of water conservation technology and related investment.

(c) The Sind Province serves as the drainage basin for the three eastern rivers emanating in India and all rivers in Pakistan. The river Indus which acts as the major drainage channel is situated on a ridge in Sind with cultivated land situated at a lower elevation. Heavy river discharges, rain and hill-torrents drain into the Indus not only flooding the plains but also raising the water table. Absence of a natural drainage aggravates the problem. This is one reason for the 8 out of 13 million acres in the irrigated command area in Sind being water-logged, while 4.8 million acres are severely saline. About 2 million acres have been covered through SCARP and drainage projects leaving a balance of 6 million to be treated. Waterlogging and salinity reduce productivity sharply. When the water-table rises to between 0 to 2.5 feet, rice productivity declines by almost 90%, cotton by 50% and wheat by 48%. Similarly, severe salinity drops productivity of rice by 80%, cotton 55%, sugarcane 50% and wheat 60%.

(d) Settlements in rural Sind are thinly scattered. There are over 31,000 settlements with 88% of the rural population living in villages of 1000 or less. About 24% of the rural population lives directly on the farm. This pattern limits access to inputs and the market. If a distance of 5 miles is considered to give reasonable access, 85% of the farms are deprived access to the metalled road, 68% to fertilizer sale points, 75% away from grain mandies.

5. Production response to anti-waterlogging and salinity measures is high and investment in this field has a high cost benefit relationship. One unit of investment in drainage is estimated to yield 4 units in wheat, 5 in rice, 10 in cotton and as much as 18 in sugarcane. So far, 2 million acres have been treated leaving 6 million acres within Sind's irrigated cropped acreage of about 9 million acres. The anti-waterlogging and salinity program should be accelerated with attention focussed upon the Left Bank Outfall Drain, which will serve an area of 4.8 million acres. Stage I is confined to about 2 million acres and is estimated to cost Rs.3000 million, excluding Rs.1000 million for feeder SCARPS.

6. Productivity of small and tenant farmers should be substantially increased. Research indicates that labour productivity ratios are surprisingly high for rice, wheat and cotton. One additional manday yields an incremental output of 53 kgs. of rice, 18 kgs. of wheat and 8 kgs. of seed cotton. Farms with higher labour input have higher productivity compared to those with a lower density of labour. Small farms or holdings and those under tenant-landlord relationship with higher density of labour generally have higher yields per acre. Land and tenancy reforms have had some impact on productivity via reduction in size of farms and higher returns to tenants which may have increased their stake, with inducement to produce more per acre.

7. Measures to support Sind's agriculture should include:

(a) Anti-waterlogging and salinity projects (LBOD).

(b) Resource permitting, investment in two reservoires in Sind alongwith the integrated use of national storages.

(c) Rehabilitation of canal system.

(d) OFWM in areas where adequate and well regulated water is available through the bulk system.

(e) Improved access to inputs and markets through metalled roads.

(f) Land reform measures giving a higher stake to tenants and small farmers with extension aimed at this target group.

8. There followed some discussion of the cost and viability of the Left Bank Outfall Drain, and the benefits to be derived from a reduced scheme proposed as first phase which would only provide for construction of the main drain without SCARP drainage works. (See also memorandum on agriculture sector discussions held in Islamabad on Monday, March 30, 1981).

cc: Mr. McNamara's Office
Messrs. Hopper, Wiehen, Clements, Yoon

WESiebeck:vb

Memorandum for the Record April 19, 1981

Wolfgang E. Siebeck, Resident Mission, Islamabad

Mr. McNamara's Visit to Quetta on ~~April~~ March 31, 1981

After a helicopter flight which took him north from Quetta to Pishin and South to Mangochar over some of Baluchistan's ground and surface water irrigation schemes, Mr. McNamara had a briefing meeting with Baluchistan officials. The Governor of Baluchistan was present, and so were Mr. Ejaz Naik, Federal Secretary, Planning and Development and Messrs. Benjenk, Hopper, Lafourcade and Siebeck.

Additional Chief Secretary (Planning and Development) Gilani highlighted the new Special Development Plan for Baluchistan. The text of his statement is attached. Also attached are notes on the four projects he proposed for Bank financing:

(1) 220 KV Dadu-Khuzdar transmission line.

(2) 1981-1984 rural electrification program.

(3) 1981-1983 diesel powered village electrification program.

(4) feasibility study for coal based thermal station.

The ensuing discussion focussed on the economic viability of irrigation development schemes in light of the high cost or irrigation water. No data were provided for the investment and current cost of irrigating. However, since net yields from one acre under tree crops averages Rs. 20-30000 (U.S.$2-3,000) water development could be a viable proposition particularly if water consumption was decreased through application of drip irrigation systems (an experimental fruit tree farm is being operated in Quetta under drip irrigation) which would allow to irrigate an area up to nine times as large as with traditional gravity irrigation. Mr. Gilani promised to provide detailed cost figures on trickle irrigation to the Bank.

cc: Mr. McNamara's Office
Messrs. Hopper, Wiehen, Clements, Yoon

WESiebeck:vb