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Folder Title: Contacts with member countries: Bangladesh - Correspondence 02

Folder ID: 1770953

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

Series: Contacts - Member Countries files

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: February 19, 2013

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THE WORLD BANK

Washington, D.C.

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McNamara Papers

Contacts
Bangladesh (1974-1978)

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Contacts with member countries: Bangladesh - Correspondence 02

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: June 20, 1974

FROM: Raymond J. Goodman, Acting Regional Vice President, Asia Region

SUBJECT: BANGLADESH: Visit of Mr. Tajjudin Ahmed, Minister of Finance

Mr. Tajjudin Ahmed, Minister of Finance, called on Mr. McNamara on June 11, 1974 at 6:30 p.m. He was accompanied by Mr. M.H. Ali, Ambassador, Mr. A.M.A. Muhith, Economic Minister and Mr. A.M. Nurul Islam, First Secretary, Embassy of Bangladesh, Mr. A.S. Chaudhury, Private Secretary to the Finance Minister and Mr. M.M. Islam, Alternate Executive Director. I was present.

6/20
The Minister had no particular matters to raise and Mr. McNamara took the opportunity of mentioning some of the salient points of the Five Year Lending Program, 1974-78, of which he gave the Minister a copy. He stressed the especially difficult problems of countries with incomes of less than \$200 per capita, which he thought were not fully recognized even by the countries themselves. Their situation would be difficult this year, and worse next year, unless the Bank's analysis was completely wrong.

As to the Bank's plans for increasing its assistance to the developing countries, particularly the poorer ones, Mr. McNamara felt that people had not adjusted their thinking to the implications of inflation, including the substantial future increases in the prices of goods and services financed by the Bank group. He hoped that the Minister would instruct his representative on the Board to speak to this point during the discussion of the paper on July 9 and to support the thesis of the paper.

In answer to Mr. McNamara's question the Minister said that Bangladesh's need for aid as a result of the increase in POL and other import prices would be about double this year. About \$500 million of aid was in sight, and an additional \$500 million would be needed, even assuming the same dollar expenditure on POL.

In reply to the Minister, Mr. McNamara said that IDA credits for Bangladesh this fiscal year would amount to about \$75 million and he hoped it would be possible to double that figure next year, assuming that IDA IV was ratified.

The Minister thought that Bangladesh might get about \$50 million under the IMF's proposed oil facility but it would be high cost money and relatively short term. A first tranche drawing on the Fund in the amount of \$29 million would shortly be available, and a second tranche soon thereafter. However the interest charges on these drawings, which in any case could only be made once, had recently gone up.

Mr. McNamara said he was glad to hear that there had been agreement earlier in the week between Bangladesh and the Bank on the portion of the Bank's claims on Pakistan to be assumed by Bangladesh. The Minister

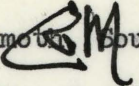
said that Bangladesh could not carry its share of Pakistan's past liabilities unless these debts were re-scheduled on the basis of an 84% grant element; however he did not appear to question the fact that his authorities had reached agreement with the Bank on a different formula.

Finally, the Minister expressed gratitude for Mr. McNamara's visit in January 1972, so soon after the independence of Bangladesh, and hoped he would come again soon. Mr. McNamara said he hoped so too but that he had no immediate plans.

cc: Messrs. Knapp
Diamond
Dunn

RJGoodman/rf

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (through Mr. R.J. ~~Goodman~~) DATE: June 11, 1974
FROM: C.G. Melmoth  South Asia
SUBJECT: BANGLADESH - Meeting with Mr. Tajuddin Ahmed, Minister of Finance

Assumption of Debt

- 6/11
1. In my supplementary brief, dated June 7, for your meeting with the Minister of Finance at 6:30 p.m. today, I referred to some points concerning the assumption of debt that the Minister might raise. I suggested, in para. 3, that you might wish to indicate you were aware that these questions were currently under discussion in London and express the hope that they would be satisfactorily resolved.
 2. Mr. Dunn telephoned today to say that conclusions satisfactory to both sides were reached this morning. An Agreed Minute is to be finalized this afternoon.
 3. The conclusions reached were in line with the negotiating brief agreed with Mr. Knapp before Mr. Dunn and Mr. Fontein left for Paris. Amongst the conclusions reached, it was agreed to postpone further consideration of our position in respect of two imports credits. Bangladesh accepted responsibility for the Technical Assistance Credit. We agreed not to press our claims at this time in respect of two Agricultural Bank credits, where it was maintained by Bangladesh that the goods imported had been paid for by local importers, and in respect of a further credit where it was maintained that the goods were not received. Bangladesh abandoned claims for credit in respect of profits transferred to Pakistan by non-local beneficiaries from PICIC projects.
 4. Both Mr. Knapp in London and Mr. Diamond in Paris have cleared the conclusions reached in the London negotiations. In subscribing to the Agreed Minute both sides are making a reservation. Bangladesh having expressed its expectation that all creditors would agree to the assumption terms implying a grant element of 84%, Mr. Knapp intervened to say that the Bank Group could not improve on the terms proposed and, in particular, could not convert Bank loans to IDA credit terms. The Agreed Minute will record that the Bank will try to persuade the creditors that the average terms of all creditors combined should amount to a grant element of 84%, but the realization of this goal is not understood to be a condition of settlement. On the Bank's side a reservation will be recorded that the conclusions reached are subject to Pakistan continuing to service disputed debt.

cc: Messrs. Weiner
Picciotto
Sadove
Goodman
Diamond
Dunn

CGMelmoth:at

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: C. G. Melmoth *C.M.*

SUBJECT: BANGLADESH - Visit of Mr. Tajuddin Ahmed
Additional Information

DATE: June 7, 1974

*Bank should
we not respond
more positively
to the "water
development financing"
request. L. S. C.*

Assumption of Debt

1. Since my memorandum to you of June 4 on the visit of Mr. Tajuddin Ahmed, the Finance Minister of Bangladesh, two events have taken place of which you should be aware. In the first place, Mr. Cargill received a visit by Mr. A.M. A. Muhith, the former Alternate to Dr. Sen, who is presently in Washington pending his transfer to Manila where he will take up the position of Executive Director in the Asian Development Bank. Mr. Muhith had been involved in the initial discussions about the assumption of liability by Bangladesh for Bank Group loans and credits and still plays a role on the periphery. He said the Finance Minister might raise the following question. The Government feels that where importers of goods financed under Bank Group loans and credits had paid for these goods in rupees through their commercial banks to the State Bank of Pakistan when obtaining their import licences for these goods, the debts in question have been discharged as far as Bangladesh is concerned. Consequently, we should not ask Bangladesh to assume liability for them. This is the case with respect to Credit No. 81 for the Commercial Vehicles Project, and Credit No. 98 for the Industrial Imports Project and with respect to three credits made to the Agricultural Development Bank, (Credits Nos. 76, 117 and 157). The argument is not a new one and has been made to us from the beginning of our negotiations. The first two of these credits are in the nature of "program" credits for balance-of payments support and in a meeting with Mr. Knapp last Wednesday we agreed that, if necessary, we would postpone discussion of these two credits without prejudice to our position on the matter. With regard to the Agricultural Development Bank credits, our feeling is it would be dangerous to agree to the notion that these in fact constitute "program" credits.

2. In addition, the Finance Minister may raise the question of repayments of principal and payments of interest made under subsidiary lending arrangements. The Government has argued that where the subsidiary loans provide for repayment of principal over a period of years significantly shorter and for payments of interest at rates substantially higher than the corresponding terms of the Bank loans or IDA credits to Pakistan, Bangladesh should be given credit for the "excess" payments. This again is an argument which has been raised from the very beginning. A total of six credits is involved and the amount in question totals to some \$3.5 millions. We are prepared to agree with them in case of two credits, but not in the case of the other four where the payments were from a provincial agency to the then Province of East Pakistan and thus merely "intra-provincial".

3. Both these matters will be discussed in London between our negotiators and the Secretary of the Planning Commission starting next Sunday. All I would suggest you say in reply is that you are aware of the problems and hope they can be satisfactorily resolved in the London discussions.

4. The second event which has taken place since my memorandum to you of June 4, is the arrival of two cables from Bangladesh, copies of which are attached. They indicate a willingness to come to a speedy solution as to the loans and credits for which Bangladesh would assume liability. However, I should point out one potentially disturbing element referred to in the penultimate paragraph of the first cable. That paragraph may mean that Bangladesh expects to receive IDA terms not only for the IDA credits but also for the Bank loans for which it would assume liability. While this may be merely a bargaining ploy, we clearly could not go along with it and will have to say so.

Request for Long-Term Water Development Planning Assistance

5. Dr. Mosharaff Hossain (formerly a member of the Bangladesh Planning Commission, now Director of the Bangladesh Institute for Development Studies) visited the Bank today and in a meeting with Mr. Weiner made an informal request that the Bank provide support to an ad hoc committee co-chaired by Mr. Hossain and Mr. Abbas (formerly director of EPWAPDA, now the Prime Minister's Advisor on Flood Control and senior Bangladesh participant on the Indo-Bangladesh Joint Rivers Commission) which is undertaking an independent review on contract from the Planning Commission of the present status of water development planning in Bangladesh. Although we have not yet received a detailed proposal (giving terms of reference, specific tasks to be done, staff requirements and budgetary needs), Mr. Hossain stated that it is similar to suggestions made in the course of Mr. Sadove's last mission to Bangladesh. Our understanding is that support is requested only for an initial review of, very roughly, six months duration, which would point the way for further detailed studies. Specifically, Mr. Hossain has asked that Mr. Sadove continue to be available to assist in this work. In addition, he requested the assistance of Messrs. Faaland and Hexner as short term consultants in initiating the review and that the Bank provide for about six months, either from its own staff or from budgeted consultancy funds, an agricultural economist and an irrigation engineer with knowledge of Bangladesh. Beyond this Mr. Hossain has indicated that the Government may wish to use the Technical Assistance Credit (Credit 409-BD) to obtain additional specialists.

6. Mr. Weiner said that it was difficult to give a full answer to Mr. Hossain's request at the present time without a careful review of the existing commitments of Bank staff and the administrative budget particularly since all technical staff members experienced in Bangladesh water problems are already fully committed for work on projects in Bangladesh and India during the period Mr. Hossain would require them. It was

however a very important matter which we will very carefully consider. He promised to let Mr. Hossain know, probably through Messrs. Sadove and Picciotto, whether he could give a more definitive response by the 19th of June, the day before Mr. Hossain leaves the country.

7. Apart from staff availability and how the assistance requested should be financed, we shall need to consider how this work can be carried out so as to minimize the appearance of the Bank taking sides on the sensitive issues with which the Joint Rivers Commission will probably be concerned.

8. We plan to tell Mr. Hossain that although we shall probably not be able to release Bank staff according to the schedule he has in mind, we recognize the considerable importance of the work they need to do, and we will certainly give the specific request the Government plans to make (which we expect to include terms of reference for consultants and an outline for arrangements for coordination with the ongoing efforts of the Planning Commission, the Water Development Board and other line agencies) very careful consideration when it is received. We will also state that we will be consulting with them how best we can be of assistance.

JQHarrison/DJFontein/CGMelmoth:lrd

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (through Mr. M. Weiner) DATE: June 4, 1974
FROM: C. Melmoth *Amhu 6/4*
SUBJECT: BANGLADESH - Visit of Mr. Tajuddin Ahmed

6/5
1. I understand you will meet Mr. Tajuddin Ahmed at Dr. Sen's house on June 11 in the company of Mr. Chavan, Minister of Finance of India, and Mr. Perera, Minister of Finance of Sri Lanka. In addition, Mr. Ahmed has asked to meet you on Tuesday, June 11 at 6:30 p.m. Mr. Muhith reports that the Minister has no special issues to raise with you, but that he probably will wish to discuss the current crisis in development aid. He may also wish to broach the question of IDA replenishment and request a higher proportion of IDA resources for Bangladesh than is presently envisaged. For your information, Bangladesh received new commitments from IDA of \$68.0 million in FY73 and will receive \$74.1 million in FY74, or 4.1% of the total Third Replenishment. The latest indicative figure for Bangladesh for the Fourth Replenishment is \$150 million per annum, or 9.8%.

2. Current Economic Situation: The Basic Economic Mission which visited Bangladesh in September/October 1973 is in the final stages of preparing its report on the medium-term prospects for the economy. A further mission to prepare an updated report on the current economic situation is scheduled to visit Bangladesh in August/September 1974. Since the publication of the First Five-Year Plan in October last year, import prices for most basic commodities have risen sharply. The Planning Commission is presently engaged in drawing up the Annual Plan for 1974/5, but as yet we have no indication of what measures the Government intends to take with respect to mobilizing foreign and domestic resources, and to increase output and exports in order to mitigate the impact of higher oil and fertilizer prices. The terms of trade for Bangladesh have not improved since the initial impact of higher import prices was felt after October 1973. While the volume of jute and tea exports has increased somewhat, prices of these exports have not risen, hence the balance of payments picture is bleak. Serious efforts are needed to improve exports and reduce smuggling. In this context it may be useful to elicit the Minister's views on exchange rate and tariff policies.

3. Recent indications are that the country's foreign exchange reserves are at an extremely low level - around US\$70 - 90 million equivalent, or just a little more than one month's imports. Enquiries being made of us from international commercial banks indicate that the Bangladesh Bank is seeking substantial amounts of short-term credit in the United States, and elsewhere. Since we have no precise figures, a discussion of the reserve position and underlying trends could prove useful.

4. Assumption of Debts: In July of last year the country members of the Pakistan consortium agreed that as of July 1 this year they would no longer expect Pakistan to service debt for "projects visibly located in Bangladesh." They also agreed that during the intervening period they would negotiate with Bangladesh on the assumption of liability for such debts. In September Bangladesh agreed to negotiate with all creditors on the basis of the agreement with Pakistan (including the Bank group, although we were not parties to the agreement.) Mr. Ahmed is a member of a three man Cabinet committee dealing with this question; the other members are Dr. Nurul Islam, Deputy Chairman of the Planning Commission, and Mr. Kamal Hossain, Foreign Minister. Mr. Ahmed is, therefore, well-placed to discuss the matter, although the Planning Commission seems to be leading the effort within the Government.

5. The Government seems to be making some progress with bilateral creditors in resolving the issues involved. As far as the Bank Group is concerned, we expect to resume our negotiations with the Government during the second week of June in either London or Paris. We have taken the view that we must ask Bangladesh to assume liability for all debts, including program debts, where we can demonstrate that the disbursements benefitted Bangladesh. So far the Government is willing to discuss only projects. Other issues that remain to be settled in our negotiations are: (i) whether or not Bangladesh assumes liability for its share of debt arising from program credits, the question of whether the definition of a "project" includes lending for agricultural credit or feasibility studies and technical assistance - at present Bangladesh is not willing to include them; (ii) whether Bangladesh should be excused assumption of debt for assets damaged during the war; (iii) whether Bangladesh should be excused assumption of debt for profits repatriated by Pakistanis who were proprietors of enterprises in Bangladesh benefitting from Bank group lending, particularly from PICIC sub-loans; and (iv) whether Bangladesh should be excused assumption of debt for payment of principal and interest made by Bengali individuals or institutions in local currency to financial institutions (e.g. PICIC) or central government agencies, in excess of the amounts repaid to the Bank group by Pakistan.

6. I suggest you should stress with Mr. Ahmed the importance we place on a prompt settlement, with all of the creditors, of this problem.

D. Dunn/W. Diamond/C. G. Melmoth:klk

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 8, 1974

FROM: William Diamond *WD*

SUBJECT: Meeting with Mr. Ahsan, Member of Planning Commission, Bangladesh

7/9

In the brief I sent to you this morning for your meeting with Mr. Ahsan, a member of the Planning Commission of Bangladesh, I suggested that you raise with him the question of the establishment of a Consortium for Bangladesh. This is a matter which is becoming daily more important, and I have in fact been exploring the matter informally with Mr. Matiul Islam over the past week. Mr. Islam sent a personal message to the Deputy Chairman of the Planning Commission over the weekend, to say that we would be prepared to consider the creation of a Consortium if the Government of Bangladesh wishes us to do so.

By coincidence, we received this morning a message to you from the Deputy Chairman asking for advice on the creation of the Consortium. The full text is as follows:

"I AM WRITING THIS IN RESPONSE TO THE SUGGESTIONS WHICH HAVE BEEN MADE FROM TIME TO TIME BY THE BANK AS WELL AS BY THE BILATERAL DONOR COUNTRIES IN THE COURSE OF THE LAST TWO YEARS ABOUT THE NEED FOR CONSTITUTING AN AID GROUP/CONSORTIUM FOR BANGLADESH STOP THE BANK SUGGESTED THAT SUCH AN AID GROUP WOULD FACILITATE CONCERTED ACTION FOR THE EXAMINATION OF THE TOTAL REQUIREMENTS AND COORDINATION OF THE FLOW OF FOREIGN ASSISTANCE FROM VARIOUS SOURCES FOR THE PLANNED ECONOMIC DEVELOPMENT OF BANGLADESH STOP WE POSITIVELY RESPOND TO THIS SUGGESTION AND WOULD WELCOME AT THE EARLIEST CONCRETE PROPOSALS FROM THE BANK ON THIS SUBJECT COMMA INCLUDING THE COMPOSITION OF AND PROCEDURES FOR THE FORMATION AND EFFECTIVE FUNCTIONING OF THE PROPOSED AID GROUP STOP I AM LOOKING FORWARD TO HEARING FROM YOU AT THE EARLIEST ON THE SUBJECT"

Another message received this morning from our Mission in Dacca states that the Bangladesh Cabinet has agreed in principle on radical measures to reactive private investment in Bangladesh, probably including a complete removal of the present ceiling of private investment, provision for collaboration between foreign and domestic private investors, without any fixed limitation on foreign equity participation, arrangements for repatriation of profits, and payment for compensation for nationalization of assets. Private investors would be free to invest in all except "key" sectors, which remain earmarked for public corporations. These measures are apparently motivated by determination to improve the climate for private investment.

.../

July 8, 1974

I do not know whether Ahsan participated in the discussions in Dacca which led to this decision. However, it would be appropriate to let him know that we have this news, to ask if he wishes to elaborate either on the request for advice on a Consortium or on the new attitude towards private investment, and to indicate that we will respond quickly and sympathetically to the request regarding a Consortium.

In this connection, attached you will find a note on a conversation I had this morning with the State Department concerning a Consortium for Bangladesh.

Attachment.

cc: Messrs. Knapp
Weiner
Dunn
Diamond

WDiamond:us/at

The Files

July 8, 1974

William Diamond

Bangladesh: Proposed Aid Group

The State Department learned this morning, as we did, that the Government of Bangladesh had written to Mr. McNamara to ask assistance in creation of an Aid Group. It appears that, in addition to being informed about the letter, the U.S. Embassy was told two other things by Nurul Islam:

- (1) The Government of Bangladesh wanted the Aid Group to be as broad as possible, and specifically mentioned Iran, Kuwait and the Soviet Union;
- (2) Nurul Islam left the impression, without concretely saying so, that the Government would prefer a Bangladesh Chairman rather than a Chairman from the World Bank.

cc: Messrs. McNamara ✓
Knapp
Weiner
Dunn

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: July 8, 1974

FROM: William Diamond W

SUBJECT: Your Meeting with A.K.M. Ahsan, at 6 p.m., July 10

1. Ahsan is the Member for Agriculture and the Social Sectors of Bangladesh's Planning Commission. He has recently gone through a very difficult time. Until September 1973 he remained under house arrest in Islamabad, refusing to be repatriated until all other Bengalis were, and he returned to Dacca only at the insistence of the Bangladesh Government. Then, a few weeks ago, one of his sons died of cancer after a long wait, and I understand another son may die soon. At around 50, Ahsan is the senior civil servant of the country. He is highly respected by the administration and the technicians. He is quite different from the two academics who make up the rest of the Planning Commission - Deputy Chairman Nurul Islam and Industry Member Rahman Sobhan. Because he is new to the Planning Commission and has gone through a family tragedy, it is difficult to assess his role and prospects, or his relationship to us. However, most of us put our money on him because he is a practical man, an experienced administrator, and carries weight with those who have the day-to-day job of running the Government. One feels on solid ground in talking to him.

2. You might want to raise the following questions with him:

- a. The agricultural situation: (i) What are the prospects for increased food production? And for greater procurement to provide for the rationing system? Heavy food imports continue, and the Government's procurement program has been inadequate. (ii) What can be done to counteract the disastrous decline in jute production, which has caused exports to fall sharply? Apparently jute land has been diverted to rice because of more attractive prices. ✓
- b. Project implementation - Our projects in Bangladesh, and presumably others, are being very poorly carried out. Excessive Cabinet supervision, poor interagency coordination, poor staff, and corruption are all parts of the picture. When I raised this subject with Ahsan in Dacca in March, he was too new (and too family-concerned) to have ideas, although he was aware of the problem. By this time, he may have ideas on the subject. The matter is crucial for us, for we are embarking on a greatly expanded lending program in Bangladesh - \$68 million in FY73, \$74 million in FY74, \$150 million each in FY75-77 - two-thirds of which will be for projects. ✓

July 8, 1974

- This is suddenly out dated by events. I shall send you a supplementary memo this afternoon.*
- c. Aid coordination - Bangladesh fared well from the international upsurge of sympathy when it came into existence. But the emergency phase is now over and some organization (not sympathy alone) is needed to produce the volume of capital imports Bangladesh needs to sustain even a minimum rate of growth. As you know, Bangladesh has so far been opposed to a consortium, which it has considered a device through which the West and Japan gangs up on the developing countries. It ran its own quasi-aid group meeting in March/April 1973, with unfortunate results (not all its own fault). Since then, the ball has been in Bangladesh's court. The time may be ripe to re-raise the question of an aid-group.

(i) When I raised the question in Dacca in March, I was told the time would be ripe after the question of assumption of debt had been more or less settled. Considerable progress has now been made with most countries, and debt assumption agreements are more or less in hand with several.

(ii) This year, Consortium meetings for Sri Lanka, Pakistan and India produced more pledges than anyone expected. Bangladesh cannot fail to have noticed.

(iii) Bangladesh is in serious payments difficulty now. Nurul Islam visited London in late June to ask for emergency aid to make payments coming due in the next few months. ODA advised him to come to the Bank. He did not do so. According to yesterday's Washington Post, he went instead to EEC. I've kept in touch with Matiul Islam on this subject. Last Friday, he cabled Nurul Islam to say the Bank would be prepared to consider organizing aid for Bangladesh if the Government wanted us to do so. (I am writing separately to Mr. Knapp on this subject.)

Ahsan has never been involved in discussions with us on this subject -- primarily because we have kept a low profile on it since Spring 1973. But he is a member of the Planning Commission and it is appropriate to raise the general question with him.

3. Ahsan has told us he wanted to raise two questions with the Bank. He should not raise them with you, but he might.

- a. Cyclone Area Reconstruction Project of 1971. This project, which you will personally recall, is shockingly behind schedule. People's lives depend on it, but that fact hasn't spurred execution. Meanwhile, the cost of the project has

July 8, 1974

gone up. Ahsan may want to ask about reducing the scope of the project, to bring it within the credit limits; he may also ask for a supplementary loan. The staff will certainly recommend the former, and maybe the latter. But the important thing is to get *with* on the job of cyclone protection.

- b. Barisal project - Negotiations are to begin next week on a project to improve yields on 140,000 acres in Barisal district. Ahsan may raise an issue concerning project administration; he differs from the view taken so far by some Bank staff. My personal inclination will be to support Ahsan's views. However, I suggest that, if he raises the question, you pass -- leaving it to staff until negotiations are underway.

4. The question of Ganges-Bramaputra development might come up. I would not advise you to raise the question because we are for the time being giving support to a group which is dealing with this subject who may or may not speak for Ahsan. Although the subject falls into his bailiwick in the Planning Commission, we do not know whether he has been involved in the planning - which in our view has been poor. I suspect Ahsan is much more practically oriented than those who have been dealing with us. If Ahsan raises the subject, I suggest you ask his view of what should be done.

5. Attached are some detailed notes on the foregoing subject, and the economic situation in Bangladesh.

6. Unless you object, I shall attend your meeting with Ahsan. So will Weiner.

Attachments

cc: Messrs. Knapp
Weiner
Dunn
Picciotto
Gassner
Plesch

WDiamond:lrd

[Annex I discarded]

th

Annex II
Page 1

1. The proposed Agriculture Training Project. The project, identified and prepared by the FAO/IBRD Cooperative Program, is being appraised by a mission now in the field. This first project would help the government develop its agriculture training program by concentrating on activities which are primarily under the Ministries of Agriculture and Local Government, Rural Development and Cooperatives. It would assist various training institutions as well as a limited number of Thana facilities - not more than 100 in total. A second project, scheduled for FY78, would be based on the experience of the first project and would expand its coverage.

2. The proposed Rural Development Project. This project is currently being prepared by an Intergovernmental Unit (IGU) with assistance from the FAO/IBRD Cooperative Programme. The project is intended to cover "concentration areas" (9 thanas in Bogra, Sylhet, Mymensingh and Barisal districts) of first priority for development. The project, which supports the expansion of the government's Integrated Rural Development Programme, is expected to include rural works, irrigation equipment, training, storage and credit. Three major project preparation exercises are now underway; an Agro-Economic Survey, an Engineering Study (which is being financed under the Technical Assistance Credit No. 409-BD) and a Thana facilities survey. Project preparation is expected to be completed sometime next fall and appraisal is now scheduled for next October/November.

3. The proposed Population Project. The first population project (which is expected to cost about US\$47 million), has already been appraised and is expected to be presented to the Board before the end of the calendar year 1974. The proposed project is designed to assist in providing those inputs that are necessary for developing a viable national population control program. It would (a) expand the capacity for training of health and family planning manpower for a nation-wide service delivery program, (b) establish a number of pilot schemes for introducing family planning education and motivation elements in the on-going or proposed development programs of five different ministries, (c) strengthen the capacity of the mass media to deal with population topics, and (d) build up research and evaluation activities to provide the knowledge needed for future program expansion. Besides providing finance for these areas, the project would require that the Government establish a special committee to study social and fiscal legislation having a bearing on fertility. It also would require that the Government set up within the Planning Commission a Population Planning Division (mentioned in the Five-Year Development Plan) to

coordinate the work of the various ministries involved in the country's Population Plan. The project also would assist the Government in its institution building efforts in various ways. We are also planning a second project for FY78 to assist in scaling up the activities that the first project is expected to help develop. In other words, this second project would help the Government establish a full-scale system of delivery of services, expand the family planning education and motivation programs on a nation-wide basis and make full use of the evaluation and research facilities developed under the first project.

4. Since Mr. Ahsan is responsible for the health sector he might be interested to learn that our population project will have a large health component as well. The Government proposes to expand the population coverage of comprehensive health care services on one hand and the health manpower resources on the other. It has set top priority on developing a rural health center network manned with a large number of auxiliary health personnel in its health plan. The emphasis of the Government health policy has been shifted from the urban oriented curative medical care services of the past, to rural oriented preventive health services with a rapid integration of various vertical health programs (e.g. malaria eradication, family planning) into the rural health center scheme. The proposed IDA population project will support this health policy through the provision of health manpower development with a particular emphasis on the training of auxiliary nursing personnel and multipurpose basic health workers. Further assistance may be required to help the Government in implementing the plan for establishing health center networks in all 356 rural thanas.

5. Agricultural Credit. A Sector Mission reviewed the agricultural credit situation in Bangladesh and has produced a working paper. The mission fully confirmed the grave difficulties of the various agricultural credit institutions and the report will hopefully initiate a dialogue between the Bank and the Government on how the Bank can best assist in resolving these difficulties, either through the Technical Assistance Credit (Credit 409-BD of 1973), a project, or both. The report (Bangladesh: Agriculture Credit Review, Report No. 461-BD), which is now at the green cover stage, has been sent to the Government for comments.

6. Joint Rivers. In the autumn of 1973, at the request of the Government, Mr. Cargill instituted efforts to explore ways we could be of assistance to Bangladesh in this connection. Mr. Sadove visited Dacca twice, the second time to suggest that the Government conduct a

six-month review of the situation - to find out what was known and available from earlier work, and to prepare a program of further work in Bangladesh. Mr. M. Hossain, former member of the Planning Commission, and Mr. Abbas, Bangladesh's representative on the Joint River's Commission, were appointed Co-directors of this study. In June Mr. Hossain visited the Bank to request assistance in getting the study underway. Messrs. Harma, Harrison, and Maasland and Hexner (consultants) are now in Dacca in response to this request. Within the Bank, we still need to work out and decide what assistance we might appropriately provide in the future. If this subject comes up in your discussions, we suggest you ask Mr. Ahsan for his views on the appropriate role for the Bank to play.

THE ECONOMY

(from Report No. P-1461-BD, dated June 5, 1974)

1. A report entitled "Reconstructing the Economy of Bangladesh" (R72-230) was distributed to the Executive Directors on October 13, 1972. A Basic Economic Mission visited Bangladesh in September/October 1973 and a report of its findings will be distributed shortly. A country data sheet is attached as Annex I.

Background

2. The inhabitants of Bangladesh are poor, per capita income being only about US\$70. They have little opportunity to generate savings. Population is growing at about 3 percent per annum, and the immediate needs of the people for food and basic consumer goods are so great that current commitments at least to prevent per capita GDP from falling, form the major focus of economic management. This makes it difficult to give attention to coherent longer-term programs. The country is very densely populated (1,400 per square mile), lacks natural resources, and is consequently heavily dependent on imports. All of these factors combine to make decisions about resource allocation exceptionally complex.

3. Independence on December 16, 1971 brought rising expectations to the average Bengali. But the task of improving his lot had clearly been made much more difficult by the destruction which had taken place over the previous two years, first as a result of the cyclone of late 1970 and then from the political upheavals of 1971 which resulted in war and finally independence. The first two years during which the Government of Bangladesh was in control of the country were dominated by an emergency situation in which law and order had to be re-established, political stability achieved, and the administrative framework reconstituted. The millions of refugees who had migrated temporarily to India had to be resettled and provided with relief. The transport system needed to be reconstructed to permit the distribution of food and other supplies.

4. Most of these urgent tasks of reconstruction were tackled speedily, although viable long-term solutions to the problems of the Bangladesh economy are still proving elusive. The Government was aided in its efforts in part by massive assistance, initially from India, and subsequently from a number of other countries and private international agencies, mostly under the auspices of the United Nations. United Nations relief operations have been terminated as of December 31, 1973, after two years, in which about US\$1.4 billion were disbursed, largely for emergency relief. The vital port

of Chittagong was restored to 90 percent of its prewar capacity by the end of June 1972. Roads were quickly, if temporarily, repaired, and ferries were brought in to substitute for damaged bridges. The vital Bhairab bridge which links Chittagong to Dacca by rail was fully repaired in September 1973.

5. Among the principal achievements of the Government since independence has been the establishment of a parliamentary democracy which has given the people a measure of political participation which they felt had hitherto been denied to them. Some progress was made towards restoration of law and order to the countryside - sufficient at least to have permitted the first parliamentary elections to be held in March 1973. However, the law and order situation remains one of the principal problems of the Government.

6. The achievements to date pale in the face of significant and disturbing problems which remain to be solved before Bangladesh can be said to be launched on a path of stable economic development. External assistance has tapered off to a level below that of the initial infusions of aid. Meanwhile stocks of raw materials and spare parts are very low, some staple consumer items are disappearing from the market and inflationary pressures are a serious continuing problem.

Food and Other Production

7. The gravest problem confronting the Government since independence has been the food situation. The 1970/71 crops were poor and the crop of December 1971 was disrupted by the war. Record levels of food imports of about 2.5 million tons in 1972 prevented the widely feared famine from occurring. Nevertheless, per capita foodgrain availabilities in 1972 were well below 1969/70 levels and this combined with internal transport difficulties, widespread hoarding, and smuggling of foodgrains to India, led to a 50 percent rise in prices over the year. By October 1972 it was apparent that the monsoon had again been poor, and the main rice crop was 20 percent lower than normal. Rapid increase in population and the need to build up depleted stocks added to the crisis, and imports of approximately 2.4 million tons of foodgrains were again necessary in 1973. Assistance in financing, procuring, transporting and distributing these massive imports was the United Nations' most conspicuous achievement, and also an achievement for the Government, which has gradually taken over this task.

8. The present position is still uncertain. Estimates differ, but it seems likely that, due mainly to rather favorable weather conditions, the main (aman) 1973/74 rice crop was about 7 million tons. If so, production for 1973/74 may have reached a record level of 12 million tons. However, much depended and will continue to depend on the ability of the Government to implement its announced policy of procuring large quantities of foodgrains

in the local market in surplus areas for distribution through ration shops to low and fixed income groups. Failure to do so has serious implications for the level of imports of other commodities. In the absence of Government procurement, hoarding and smuggling reduce the total amounts available to the economy. The government's Internal Procurement Scheme had set itself a purchasing target of 300-400 thousand tons of rice for the aman crops. However, between November 15, 1973 and February 19, 1974, only 65,000 tons had been actually purchased. The poor procurement performance is attributed to insistence on rigorous quality specifications, an uncompetitive procurement price and the attractions of hoarding and smuggling in a period of rising free market prices. Even on "optimistic" assumptions - no increase in the consumption level or in stocks, both of which are already low and a good boro harvest - the Government would have to import at least about 1 million tons for calendar 1974, and larger imports now seems inevitable. The stark reality is that even with improved crop production, Bangladesh will continue to require substantial foodgrain imports for a number of years.

9. Elsewhere in the economy, non-agricultural sectors have been slow to recover. Industrial activity came to a virtual standstill from November 1971 to January 1972. Industrial production recovered to some degree fairly rapidly in 1972 and 1973, but 1969/70 levels of output have not yet been achieved consistently (with considerable variation among industries). A weighted index of industrial production (1969/70 = 100), constructed by the Bangladesh Central Bank, shows an improvement from 64 in 1972/73 to 88 in 1973/74. The difficulties impeding a return to full production continue to arise from the lack of raw materials, spare parts, components and other material inputs, the lack of repair and maintenance, the inability to replace certain key items of machinery and equipment lost during the disturbances, and power failures. These latter have resulted more from inadequate transmission and distribution facilities, or from problems in transporting fuel, than from lack of generating capacity. Transport is also a bottleneck; there are still fewer trucks and buses than were available before the war. With stocks extremely low or non-existent, any one of these factors can cause an enterprise to come to a complete standstill. The productivity and profitability of industrial enterprises are generally low and their financial position precarious, making their full recovery more difficult to achieve. In addition, there are significant pockets of labor unrest. The resulting low levels of output have been a major factor in contributing towards the high levels of inflation. The general cost of living index of middle class people at Dacca (1969/70 = 100), stood at 259.2 during February, 1974, while the index for industrial workers at Narayanganj (1969/70 = 100), rose to 287.4 in the same month. In major cities the cost of living increased by 60 percent in the year ending in June 1973.

Trade

10. Total exports in fiscal year 1972/73 are estimated at about US\$385 million, which compares with about US\$500 million exported to Pakistan and other countries in the prewar period. Much of this decline is on items such as tea, matches and spices, which were formerly exported to Pakistan. Prices of raw jute and jute goods have improved as a result of the improved market for jute, consequent on the rise in the price of oil-based synthetics. The volume of jute exports is expected to be the same as it was in 1972/73. A subsidy of 30 percent has been given to 79 non-jute exports since the beginning of FY1973/74, but this is unlikely to contribute much to export earnings in the short run because of substantial increases in the costs of production since independence, the industrial difficulties noted above, and the fact that non-jute exports now represent only about 10 percent of the total value of exports. Overall, export earnings in 1973/74 are predicted at about US\$450 million.

11. One of the major factors impeding the growth of production (and exports), and another major cause of the rapid increase in the general level of prices, has been the lack of imports. Non-food imports in 1972/73 were well below the 1969/70 level. In part, this is due to failures in the administrative arrangements for the procurement of imports, including those provided under foreign aid. The increases in the international prices of major imported commodities such as foodgrains, cotton and cement have also contributed significantly to the problems of import planning and procurement. The recent escalation in oil prices is estimated to add a further US\$60 million to the annual import bill. For 1973/74, the non-food import targets of about US\$720 million can be achieved only if the efficiency of the licensing and the importing systems is improved to a significant degree, and only if funds do not have to be diverted to increased food imports as a result of the failure of local procurement. Further, it is important to note that the planned target for non-food imports allows for no buildup of stocks, which is a crucial factor in the production process.

The Annual Plans of 1972/73 and 1973/74

12. In July 1972 the first budget and Annual Plan (for 1972/73) were presented; they proposed some US\$430 million of public development expenditure and a further US\$160 million for reconstruction. About half of the development expenditure was for agriculture, rural institutions, and water and flood control. Provisional 1972/73 budget estimates show a 20 percent shortfall in development expenditure. Considering the price rises during the year, the shortfall in real terms was far higher. The need to provide substantial subsidies for public sector enterprises led to larger than budgeted deficit financing through net credit to the public sector. The money supply expanded by 108 percent between December 1971 and December 1973. This combined with commodity shortages to cause serious price problems; because of their political implications, these loom large in the short-term economic concerns of the Government.

13. The budget and Annual Plan for 1973/74, which appeared in July 1973, anticipated an increase in projected development expenditure of 30 percent over the revised estimates for 1972/73. However, the most recent estimates of the budget outlook for 1973/74 show a more modest increase of 7 percent in development expenditure over the revised estimates for 1972/73. The priority given to agriculture remains unchanged. Non-development expenditure in 1973/74 is estimated to increase by 69 percent over the revised estimates for 1972/73, principally due to additional outlays for defense and increased pay. The volume of aid disbursements is estimated to be at the same level as in 1972/73 and the Plan thus places heavy reliance on mobilizing domestic resources. Given the shortfall on this account which took place in 1972/73, the achievement of these targets would require improved performance both on the fiscal and project implementation sides. However, revised estimates of the budget outlook for 1973/74 indicate that revenues may be as much as 13 percent lower than earlier estimates with the result that the previously expected current surplus is transformed into a small deficit. The burden of adjusting to the anticipated drop in revenue receipts has fallen on development expenditure; outlays have been pruned by 19 percent as compared with original budget estimates, though estimates of current non-development expenditure show an increase of 29 percent. Domestic capital receipts in 1973/74 are expected to reveal a shortfall of 68 percent, as compared with original budget estimates. In addition, foreign loans and grants may be lower than originally anticipated. The maintenance of budgetary expenditure at the levels postulated, will therefore, necessitate heavy recourse to deficit financing with additional pressures on prices. These pressures are likely to be exacerbated by a substantial increase in the food account deficit which is financed through the banking system. Some relief may, however, be derived from measures adopted on March 31, 1974, when the prices at which agricultural inputs such as fertilizer and pesticides were sold were raised.

The First Five-Year Plan

14. The First Five-Year Plan, covering the period 1973/74 - 1977/78, was approved by the cabinet in early November 1973. The Plan aims at increasing GDP at an average annual rate of 5.5 percent in real terms, and its primary strategies are to reduce dependence on imports of foodgrains and to improve the balance of payments by import substitution and export promotion. Apart from self-sufficiency in foodgrains, the Plan expects major import substitution to come from new industries, notably fertilizer and synthetic fibers to be based on indigenous natural gas. To achieve these targets, the Plan calls for financial development outlay of US\$5.9 billion, about US\$5.3 billion of which is allocated to the public sector. Agriculture and water resources would receive the highest priority with a projected outlay of about 24 percent of total development expenditure.

15. The Plan places heavy reliance on mobilizing domestic resources. It calls for savings generated in the public sector of about 41 percent of public sector development spending, with foreign aid making up approximately a further 43 percent. On the evidence of 1972/73, however, the Plan targets for domestic resource mobilization now appear out of reach in real terms.

External Assistance to Bangladesh

16. The preceding analysis makes it evident that Bangladesh will require large and continuing external assistance on very favorable terms if it is to achieve an acceptable growth rate. Long-term projections suggest that, even to maintain present per capita income levels in the face of continued population growth, net aid disbursements of between US\$100 million and US\$200 million per annum would be required. Average net aid disbursements of US\$500 million per year over the Five-Year Plan period would be required to permit imports to be maintained at a level of US\$0.9 to 1.0 billion and the rate of investment at the 12-15 percent of GDP level which is needed for a 5 percent per annum growth of GDP. Net aid disbursement levels of about US\$300 million per annum would permit imports of only about US\$700 million per annum which, given a higher foodgrain component and substantially higher world commodity prices, would allow for no more investment goods and raw materials than were imported in 1969/70 into the area that became Bangladesh.

17. Sustained growth of 5 percent per annum would produce only a 2 percent growth in per capita GDP; at this rate another two decades would be needed before GDP per capita would pass US\$100. The prospects for achieving the required minimum import level for 1973/74, about US\$900 million including foodgrain imports, are not bright. As stated in paragraph 10 above, export proceeds are not expected to be more than US\$390 million. Projected foreign aid disbursements includes the following: bilateral project aid, US\$77 million; bilateral food and commodity aid, US\$300 million; IDA project aid, US\$19 million; and IDA program credits US\$47 million, and ADB project aid US\$7.45 million.

18. The emergency phase of foreign assistance in Bangladesh came to an end with the termination of the United Nations relief operations. There were no large amounts of undisbursed funds left in the UN coordinated rehabilitation program. Total aid commitments to date, which were about US\$1.4 billion as of December 1973, have been ample and on generous terms (with suppliers' credits forming only a small part of overall aid inflows), and indications are that the dollar amounts of these commitments will remain at about the same annual level, about US\$450 million through FY75. Disbursements, however, are likely to be limited by the capacity to procure and import efficiently, by world supply shortages of some basic commodities, and by the lack of a sufficient number of well prepared projects.

19. Bilateral programs of assistance during the immediate post-independence period have been flexible and oriented towards quick-disbursing commodity and program lending both to relieve the critical food situation and to respond to the country's immediate import needs. All of the bilateral agencies, however, now wish to redirect their operations program towards development projects, especially in agriculture and rural development. However, it is by no means certain that project lending will be a major feature of external assistance to Bangladesh over the next 12 months. Virtually all donors to Bangladesh have committed non-food commodity credits for 1973/74, though a good deal of this aid is tied to designated sources of supply. Even under present assumptions about project preparedness, only about 55 percent of total non-food aid to Bangladesh during 1973/74 will be in the form of program lending, compared with about 70 percent in 1971/72 and 66 percent in 1972/73. The estimated percentage of program aid for 1974/75 is under 50 percent, which reflects donors' intentions of redirecting aid commitments towards projects in the Five-Year Plan. Major donors are conscious, however, that they may be required to direct more resources than presently contemplated towards program aid, because so few projects are ready, and because the need for program aid persists, especially in the light of recent world price increases.

Memorandum of Conversation
Blair House
October 1, 1974

Participants:

Bangladesh

Prime Minister Mujibur Rahman
Tajuddin Ahmad, Minister of Finance
M. Hossain Ali, Ambassador to the United States
Nurul Islam, Deputy Chairman, Planning Commission
Matiul Islam, Alternate Executive Director, World Bank
A. Muhith, Economic Minister, Bangladesh Embassy

World Bank:

President Robert S. McNamara
William Diamond, Director, South Asia Country Programs
Department
Leonard Weiss, Resident Representative, Bangladesh

Subject: Bangladesh Problems and Aid Needs - General Exchange of Views

The Prime Minister opened the meeting by thanking Mr. McNamara for his recognition of the great difficulties facing Bangladesh and his strong support of assistance to that country to help meet its needs. In this connection he referred approvingly to Mr. McNamara's address yesterday to the Fund/Bank Conference outlining the needs of the developing countries. Mr. McNamara expressed his appreciation for the Prime Minister's remarks and said that, after all, this is the Bank's job.

As regards the forthcoming meeting of the Bangladesh Aid Group, Mr. McNamara noted that 18 countries, including three OPEC states, and five international organizations have accepted invitations to participate. This now constitutes the largest aid group established under Bank auspices. A good start has thus been made, and the Bank will put the Bangladesh case forward as forcefully as it can.

He did not wish, however, to exaggerate the possibilities of success. As reflected in the speeches at the Fund/Bank meeting, countries are fearful of their own economic prospects, making it difficult to marshal support for assistance in the degree required. He thus anticipated considerable difficulty in the Bangladesh Aid Group.

He emphasized that if there were actions which the Bangladesh Government could and would take to confirm its own dedication to deal with its difficulties, it would assist considerably in winning support from donor countries. In this connection he indicated that he did not know what the problem was between Bangladesh and the Fund but anything that the Bangladesh Government could do to unlock the \$75 million involved would help greatly both in providing additional funds and encouraging assistance from donor countries in the Aid Group.

The Prime Minister replied that his country had done some things to help itself. He noted, for example, that over the past few years it had reduced its food deficit from 3 million tons to 1.3 million. But then came natural disasters of unprecedented proportions to undo its efforts and bring untold misery on his people. As evidence of self-help he noted further that his Government had mobilized the people to deal with the floods, building embankments and taking other action.

To help cope with the periodic floods, he urged the need for dredging of the smaller rivers. From his own observation and experience as a man of the soil he believed that such removal of excessive silt and clearing of the channels would help to control flooding. He stressed the need for a fleet of dredges for this purpose.

The Prime Minister then referred to the future economic potential of Bangladesh. It was exploring the possibilities of oil. It had coal, limestone and natural gas and the capability of substantial manufacture and export of fertilizer. It was willing to consider joint ventures to attract foreign capital to develop these potentialities.

He strongly emphasized his country needs five years time and help to survive. Then it can go on to develop its potential and reduce the need for outside assistance.

With respect to dredging, Mr. McNamara indicated he did not know enough about the possibility and would have to look into it further. On natural gas and fertilizer production, he agreed the country had great potential, and the Bank could help on this.

The Prime Minister noted that the recent explosion at the Ghorasal fertilizer plant was a grievous blow and created unexpected import requirements for fertilizer. To further add to the distress, another cyclone hit his country today, affecting 6 districts.

Mr. McNamara encouraged the Prime Minister to talk to U. S. Congressmen and explain the magnitude of his country's difficulties. The American people do not understand the full proportions of the problem. Rising food

prices have raised great concern among the American people about food supplies, putting heavy pressure on U. S. political leaders and adversely affecting the possibilities of food grains for export. The Prime Minister and he have got to address themselves to this problem and convince, in this case, the United States, that it is in its long-term interest to export and give assistance. He cannot overemphasize this political problem, and anything Bangladesh can do to show by its own acts that it is trying to help itself, will help in selling its case.

The Prime Minister acknowledged the political problem and said he was scheduled to speak to a number of Congressmen during his current visit. He repeated that his country needs time, that it is a fertile land and can produce as much as three crops a year.

In reply to Mr. McNamara's query as to what response Bangladesh is getting from the OPEC countries, the Prime Minister indicated that his country has not yet been recognized by Saudi Arabia, has good relations with Abu Dhabi and Kuwait, and has some contact with Iran. It was noted that Kuwait, Iran and Abu Dhabi are coming to the Aid Group meeting. Mr. Diamond indicated that Mr. Cargill will speak to Saudi Arabian and Iraq representatives at the Fund/Bank meeting to urge their countries' participation in the Aid Group.

Referring to the war with Pakistan, the Prime Minister observed that all the massacres, all the destruction took place on his country's soil. Despite this, he has gotten no help from Pakistan, and the latter hasn't agreed to pay a single cent in indemnification. Mr. McNamara expressed his belief that of all the large countries, Bangladesh needs help the most.

Mr. McNamara said one thing that worries him greatly is Bangladesh implementation of projects. The Bangladesh record on this is very poor, and if he should pay a visit to the country, as the Prime Minister was urging, he would particularly like to discuss this problem.

The Prime Minister hoped that Mr. McNamara could discuss this problem with his officials. The Prime Minister observed that his Government is a young one, it had no administration, no departments of government, it had to start from scratch and set up everything from the beginning. Mr. McNamara recognized these difficulties and indicated that if there is anything the Bank can do to help, he would like to.

In the course of the foregoing exchange, the Prime Minister acknowledged that some corruption existed, and indicated that he could

sack people and put them in jail. He noted again, however, the enormity of the problem he was facing, and that he has had to build a government from the ground up.

In winding up the meeting, Mr. McNamara urged the Prime Minister to do what he can to resolve the difficulties with the Fund and get the \$75 million. He promised to write all 23 participants in the Aid Group meeting to urge they do everything they can to aid Bangladesh. He also noted his designation of Mr. Weiss as the Bank's new Resident Representative in Bangladesh, encouraged the Prime Minister and his officials to convey their concerns to Mr. Weiss, and promised the Bank would do everything it could to help.

The Prime Minister thanked Mr. McNamara for his sympathetic interest and support.

Summing up, Mr. McNamara several times stressed the importance of making an accommodation with the Fund, without ever mentioning devaluation. While pleading ignorance of the issues between the Fund and Bangladesh, he stressed the critical importance of Bangladesh's being in a position to say it has taken all the actions it could reasonably be expected to take. The Prime Minister did not respond to these comments and suggestions about the problem with the Fund until the end, when he said he was sure that, if Mr. McNamara headed the Fund, Bangladesh would already have its \$75 million.

cc: Mr. McNamara
Mr. Knapp
Mr. Weiner
Mr. Diamond
Mr. van der Meer
Mr. Dunn

LW
LWeiss/mp

Bangladesh

(about \$3 million) to replace the provision for repair of the existing terminal which had been included under Credit 424-BD.

Several other projects in our lending program will have to be postponed due to lack of sufficient funds.

9. The Bangladesh Delegation can be expected to ask for a larger allocation of the total amount of IDA resources available, on the argument that even before the floods they were amongst the worst affected of developing countries by recent international economic developments. The Delegation may also request that additional program aid in this fiscal year should be made available. Given the absolute constraints on the amounts of IDA funds available and the need to finance a minimum number of high priority projects, it will not be possible to increase the allocation for Bangladesh or the amount of program lending. The reason why we are only providing a "first tranche" of this year's program lending now is that only about two-thirds of this year's allocation can be committed before the United States acts.

II. BIOGRAPHICAL SKETCHES OF SENIOR DELEGATION MEMBERS:

A. Mr. Tajuddin Ahmed, Minister of Finance, Governor for IMF and Head of Delegation, is 48, a graduate in economics and has been a close associate of Mujibur Rahman since 1944. He was one of the chief organizers of the Awami League, became Secretary General of the party in 1966, was imprisoned several times, and was elected to the National Assembly of Pakistan in 1970. In 1971 he fled to India and became Prime Minister of the Provisional Government of Bangladesh. He helped organize a resistance movement among Bengali army and police forces and political elements which had little previous connection with the Awami League. He was appointed to his present position in early January 1972.

B. Dr. Nurul Islam, Deputy Chairman of the Planning Commission and Governor for IBRD is 44 and a well-known economist educated at Dacca and Harvard. He joined Dacca University in 1955, became full professor in 1960, and Chairman of the Economics Department in 1962. From 1965 until the 1971 military crackdown, he was Director of the Pakistan Institute of Development Economics. He has long been one of Sheikh Mujib's chief economic advisers. After March 1971, he worked briefly at Yale, returning to Dacca after liberation to take up his present post in January 1972.

C. Mr. A. N. M. Hamidullah, Governor, Bangladesh Bank and Alternate Governor for IMF, is in his mid-forties, and is a graduate in commerce from the University of Calcutta with more than 20 years of experience in

commercial banking. He began his career with the National Bank of Pakistan in 1950, received advanced training at Barclays Bank in London in 1956-57, and in 1961 became Regional Manager of the East Pakistan Branch of the Industrial Development Bank of Pakistan. When the Eastern Banking Corporation (one of the two Dacca-based commercial banks) was founded in 1966, he became its first Managing Director. When the Bangladesh Bank was established after liberation, Mr. Hamidullah became its Governor.

D. Mr. K. Mahmood, Secretary, Ministry of Finance, and Alternate Governor for IBRD, is about fifty, and holds Bachelor's and Master's Degrees from Dacca University. He has held several senior positions in the Governments of East Pakistan, Pakistan, and Bangladesh, mostly in the financial field, but including being Director, Village Aid, and Secretary, Department of Health in East Pakistan. Before assuming his present post he was Chairman of the National Board of Revenue.

E. Messrs. Matiul Islam current Alternate Executive Director, and A.M.A. Muhith, his predecessor and now Economic Minister in the Embassy in Washington, are Temporary Alternates; it is likely that both will attend the meetings.

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OFFICE MEMORANDUM

TO: Files

DATE: September 2, 1975

FROM: David A. Dunn

*DA Dunn*SUBJECT: BANGLADESH: 1975 Annual Meeting Discussions

1. The Bangladesh delegation to the Annual Meeting met with Mr. McNamara at 2:00 p.m., Monday September 1 1.
2. Mr. McNamara opened the discussion by commenting that IDA had some questions about going ahead with the Fourth Program Credit as originally planned. However, since he understood that any change would cause Bangladesh problems because of factors such as the advanced licensing which had taken place with IDA's concurrence, and the reaction of other donors, he felt that IDA had a commitment to present a \$100 million credit to its Board and that this would be done. He noted that for the future there would have to be a thorough discussion of the lending program and program lending. IDA continued to be concerned at delays in project preparation and the thinness of the project pipeline. While Mr. McNamara recognized that Bangladesh's status as a new country made it hard to improve in these areas, it also had to be recognized that IDA's Articles required that program lending be done only in exceptional circumstances and that the absence of good projects could not be a justification for program lending. Dr. Mallick thanked Mr. McNamara for his comments and said that Bangladesh had not been concerned so much with IDA's commitment, but rather that they had hoped for, and assumed that they would receive, the IDA credit when they had made their plans for financing imports for this year.
3. Dr. Mallick cited measures which the Government had taken to improve project implementation. The Project Implementation Bureau was now fully staffed, and within the last two weeks the new Government had acted to create an autonomous Telecommunications Board and to make the Water Development Board more autonomous while giving it a full time Chairman. These actions had been recommended by IDA. The Finance Minister assured Mr. McNamara of the continuity in Government in Bangladesh. The new Government would follow the economic reform program initiated by the former Government. The Minister recognized IDA's concern about the need to reduce foodgrain subsidies and increase agricultural taxation. Both topics were being studied and the Government was considering proposals for action.

1 Attending the meeting for the Bangladesh Government were:

Dr. Azizur Rahman Mallick, Minister of Finance and Governor for the IMF
Mr. Muhammad Syeduzzaman, Secretary of the Planning Commission and
Alternate Governor for the IBRD
Mr. M. Matiul Islam, Alternate Executive Director
Mr. Anwarul Karim, Economic Minister, Embassy of Bangladesh
Mr. A. M. Nurul Islam, First Secretary, Embassy of Bangladesh

Also attending for the Bank were Messrs. Knapp, Stern, Chenery, Weiner,
Diamond, Van der Meer, Gilmartin, Weiss and Dunn.

4. Dr. Mallick said that he recognized that the project pipeline needed to be improved and he requested that IDA make a second Technical Assistance credit for project preparation. He went on to say that he hoped Bangladesh could benefit by receiving more funds from the Bank Group as a result of the Third Window. Mr. McNamara responded that he and his staff recognized that Bangladesh was one of the poorer countries and deserved more in the way of lending. However, he could not say how much of an increase in IDA allocation Bangladesh might receive as a result of the "ripple" effect of the Third Window. He hoped Bangladesh could benefit from some shifting of funds, but he noted that the reallocation had not been done yet, largely because the Third Window money was not yet there.

5. In this respect Mr. McNamara emphasized that the next IDA replenishment, IDA V, would be of tremendous importance for Bangladesh. The negotiations would be very hard. Inflation had been high and it would be hard enough to get Governments to contribute more to compensate for the price factor, but it would be even harder to get the increase in real terms, which was necessary. Mr. McNamara hoped to peg the level of IDA V to the GDP's of contributing countries. He noted that the OECD countries would insist on contributions from the OPEC countries, perhaps asking for unrealistic levels of support. All of this would make IDA V the most complicated and difficult negotiation the Bank group had ever faced. Mr. McNamara appealed to Bangladesh to help by talking to the OECD and OPEC countries.

6. Dr. Mallick said that Bangladesh would do its best to help. He went on to press for IDA support of Bangladesh's development program. The Planning Commission was working on a three-year "hard-core" investment program and they needed an idea of the amount of IDA aid which would be forthcoming over that period. The Finance Minister noted that the Government was committed to controlling revenue expenditures so that there would be no deficit financing this year. It was also keeping a tight rein on credit expansion. Mr. McNamara said that IDA could certainly make a second Technical Assistance credit but that it was difficult to make a three-year IDA commitment. Bangladesh already received special treatment, receiving more IDA aid per capita than was the average for IDA countries. He said that it was a pity that in present circumstances the poor countries tended to get the least aid, citing as an example Indonesia, which because it was now better off could qualify for IBRD loans and thus had a larger lending program than when it was an IDA country. That was why IDA V was so important to Bangladesh. Mr. McNamara concluded by saying he could not assure Bangladesh a substantial increase and that it would be unwise for the Government to plan on more than \$150 to \$175 million per annum over the next three years. Even that amount would require further progress in project implementation and preparation and in following a sound economic development program. He was sorry that he could not be more encouraging.

7. Dr. Mallick responded by saying that he did not want to commit Mr. McNamara to a figure, but that he did hope that IDA would keep Bangladesh's needs in mind.

8. Mr. Syeduzzaman asked if it would now be possible to negotiate the Fourth Program credit. Mr. Diamond responded that informal negotiations could now begin but that the formal negotiations could not commence until after IDA's Board had been informed of the intention to negotiate and given the opportunity to comment. Dr. Mallick closed the meeting by thanking Mr. McNamara for his time, his comments, and for his initiative in organizing the Aid Group. Both he and Mr. McNamara expressed satisfaction at the way the first two Aid Group meetings had gone.

DADunn:kvj

cc: Messrs. McNamara, Knapp, Stern, Chenery, Weiner, Diamond, Van der Meer,
Gilmartin, Weiss and Dunn

13

OFFICE MEMORANDUM

TO: FILES

FROM: Ernest Stern, ^{ED}VP, South Asia Region

SUBJECT: Visit of Ambassador of Bangladesh
with Mr. McNamara

DATE: October 31, 1975

1. The Ambassador of Bangladesh paid a courtesy call on Mr. McNamara on October 9. The Ambassador reported on recent developments in Bangladesh, including the issuance of a white paper on the economy.

2. Mr. McNamara responded that the World Bank Group had been deeply involved with Bangladesh since its inception, and he himself had visited immediately after independence. However, he had been much concerned with the lack of progress since then, the poor decision-making structure, and the widespread corruption. He was pleased to hear that the new Government recognized these problems and hoped that they would deal with them effectively. He stressed that we had experienced considerable difficulty in project implementation and urged the Government to give this matter high priority and also to improve its efforts in project preparation. The Ambassador agreed that these areas had been problems but thought that matters would now improve. He went on to say that, in his review of the pending loan program, he had seen little Bank participation in infrastructure, particularly roads and communications. These were urgent requirements in Bangladesh. Mr. Stern responded that one had to establish certain priorities and that for the present we thought emphasis on quick-yielding projects in agriculture and increased utilization of existing capacity were the most important. We did also contribute to the rehabilitation of inland water transport. Some of the road projects that the Ambassador mentioned had been under consideration for some time, but significant improvements could be made at rather modest cost through repair and rehabilitation rather than to undertake major highway construction.

cc: Messrs. Burmester
Diamond
Dunn

EStern/ls

OFFICE MEMORANDUM

TO: Mr. Robert McNamara, President

DATE: October 8, 1975

FROM: Ernest Stern, *ES* Vice President, South Asia RegionSUBJECT: BANGLADESH: Meeting with Ambassador Siddiqui

1. Mr. M. R. Siddiqui, the new Bangladesh Ambassador to the United States, has an appointment with you on October 9 at 6:00 p.m. The Ambassador represented his country here and at the United Nations during the liberation struggle. He is 50 years old and is a businessman from the Chittagong District. He was Minister of Commerce in 1972/73 but after the 1973 elections he was not included in the new Cabinet, allegedly because of corruption. Thereafter, in addition to being a member of Parliament he was active in running family business interests in Chittagong, including several small manufacturing plants. He is a chartered accountant and prior to Bangladesh independence was Founder-director of an insurance company, two jute manufacturing corporations and a bank in East Pakistan. He was President of Chittagong District Awami League from 1964. A copy of his official bio data is attached.

2. The Embassy has informed us that they do not expect him to raise any issues at this meeting, which has been requested as a courtesy call.

3. Since the Annual Meeting, the following events have occurred. The negotiations for the Program Credit for \$100 million have been completed. Board presentation is scheduled for October 28. As you recall, one of the issues discussed at the Annual Meeting was the continued problem of project implementation. Since the Annual Meeting the Government has moved the Project Implementation Bureau from the President's Office to the Planning Commission and it is rumored that they are looking for a job in an international organization for the current head of the PIB, Mr. A. K. M. Ahsan, the senior civil servant of the country. The Dacca Office believes the move may reflect personality conflicts. We will have to wait and see whether the PIB can be effective in its new location. Our Dacca Office is keeping a close watch on developments in this field.

4. Another issue you discussed with the Finance Minister, Mr. Mallick, at the Annual Meeting was the expected level of IDA aid to the country in the future. You said that Bangladesh would be imprudent to count on more than \$150 million (the present level) to \$175 million over the next few years. /1

5. At the Annual Meeting the Government recognized the scarcity of projects in the pipeline and asked for another Technical Assistance Credit to help in preparing projects. One is tentatively scheduled for this year, subject to discussion with UNDP (and the Government) on our respective roles in technical assistance in Bangladesh.

/1 I also attach a review of the position with respect to this year's program.
Attachments

FKing:rms

*Deeply concerned about
nation's ability to utilize
aid effectively for
development purposes:*

*serious
difficult
implementation
mainly
approved
projects
if that
help
help
progress
satisfactorily
will not
justified
in attending
new loans*

10/8

BIOGRAPHIC DATA OF HIS EXCELLENCY M.R. SIDDIQI,
AMBASSADOR OF BANGLADESH TO THE UNITED STATES.

Mr. Mustafizur Rahman Siddiqi was born on March 1, 1925.

Passed M.A. in Commerce from the University of Calcutta in the year 1947. Passed B. Com. from the University of London in 1954. Qualified as Chartered Accountant from England in 1955. Passed from the Institute of Taxation, London (final examination) in 1954. He was elected Fellow of Royal Economic Society and Royal Statistical Society in 1955. ...

He was founder Managing Director of Eastern Insurance Co. Ltd., S.K.M. Jute Mills Ltd., Founder Director of Eastern Mercantile Bank and A.K. Khan Jute Mills Ltd. He was formerly Director of Pakistan Shipping Lines Ltd., and Pakistan Insurance Corporation. At present Managing Director of M/S SIDKO LIMITED, NATIONAL MOTORS LIMITED, CRESCENT MOTORS LIMITED, THERAPEUTICS (BANGLADESH) LIMITED, ALPINE TRADING CO., and Director of A.K. Khan & Co., Limited. He is also Chairman of Dawn Brothers Ltd.

He was member of the Executive Committee of the Chittagong Chamber of Commerce and the then Pakistan Federation of Chamber of Commerce, Chairman of Pakistan Insurance Association. He was Founder Chairman of Management Association of the then East Pakistan. He was a member of the Advisory Council of the Ministry of Commerce, Government of Pakistan. He represented Pakistan in the ECAFE Conference at BANGKOK and TEHRAN. He was Deputy Leader of Pakistan Trade Delegation to ITALY and member of Pakistan Trade Delegation to the Republic of CHINA and INDONESIA.

He was first elected member of the NATIONAL ASSEMBLY OF PAKISTAN in 1962 and again in 1970. During Liberation War he was in charge of Eastern Zone. Later on he went to the U.S.A. as Head of Bangladesh Mission in Washington. In 1972 he joined Bangladesh Government as Commerce Minister. In 1973 he called on the Heads of the State of Canada, U.S.A., U.K., France, Germany, Italy and Holland as Special Envoy of Prime Minister of Bangladesh. The same year he was re-elected member of Jatiya Sangsad (Parliament).

He is a dedicated social worker and held the position of District Governor of Lions International in the then East Pakistan and in Bangladesh for four times. In 1961, he received the highest award in Lionism "The Humanitarian Award" for exceptionally meritorious work during the cyclone and tidal bore of 1960. At present he is the International Counsellor. He is also President of Bangladesh-Japan Society.

He has travelled widely. He is married and blessed with five sons.

BANGLADESH
FY 1976 Lending Program
(US\$ Million)

Inland Water Supplementary Credit (Approved by Executive Directors)	4.6	
Fourth Imports Program Credit (Documents circulated for Board consideration October 28)	100.0	
Karnafuli Irrigation Project (Negotiations completed, Board consideration scheduled for December 2.)	19.1	<u>1/</u>
Rural Training Project (Negotiations completed. Board consideration scheduled for December 16.)	13.0	
Rural Development Project (Negotiations scheduled for November and Board consider- ation for January)	16.0	

Sub-total	152.7	
Muhuri Irrigation Project (Negotiations completed; Board presentation expected in May - and final credit amount depend on receipt of bids for major construction contract)	25.0	
Second Technical Assistance Project	5.0	

Total	182.7	

1/ Excludes refinancing of Engineering Credit S-14

14.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: January 12, 1976

FROM: Manfred G. Blobel, Director, ASA

SUBJECT: Bangladesh: Your Meeting with Mr. Kafialuddin Mahmood

1. Mr. Kafialuddin Mahmood, Secretary of the Ministry of Finance, is also Governor for IBRD. He is 48 and was educated at Dacca University in political science. His career as a civil servant started in 1950, making him one of the most senior civil servants in Bangladesh. While in the civil service of Pakistan he served as Director of Village Aid, Secretary of the Departments of Health and Finance, and Chairman of the Industrial Development Corporation. After independence, he became the Chairman of the National Board of Revenue and then, in 1973, Secretary of Finance. He attended the 1974 Annual Meeting but did not attend the 1975 Annual Meeting due to pressure of work following the August change in Government. He is currently in Washington en route from Kingston.

Topics for Conversation

2. We have no information as to what issues Mr. Mahmood might wish to raise with you. He will be accompanied by the Ambassador, Mr. M.R. Siddiqui and by Matiul Islam. I will also attend. On our side we would wish for you to reenforce the message conveyed to the Bangladesh Government in December by Mr. Weiss and Mr. Dunn that for the next Aid Group Meeting to be a success it is essential that the Government demonstrate progress in four areas:

- a. improving Government administration;
- b. specific improvements in project implementation procedures;
- c. at least preliminary definition of Government development priorities; and
- d. measures to improve economic management, including promotion of exports, reduction of subsidies (e.g. on foodgrain and fertilizer) and broadening the tax-base.

We said that the Government should by mid-April prepare a document for the Aid Group recognizing the need for action on the points above and detailing actions already taken or under consideration. Since that time the Government has taken several encouraging steps (see memorandum from Mr. Stern to you dated December 24, 1975). However, it is too early to determine whether the Government will be willing and able to take actions strong enough to provide the basis for real economic development in Bangladesh. You should note that Mr. Mahmood himself was not among the senior officials with whom Messrs. Weiss and Dunn met to convey this message. He cancelled a meeting with Mr. Dunn because of work pressures.

3. One particular area to which attention must be paid by the Finance Ministry is ensuring the timely release of local currency funds required for project implementation. The problem, at least in recent years, appears not to be a shortage of funds but instead the complex and time consuming administrative procedures for release of funds. The Government has recently decided to simplify procedures somewhat so that for approved foreign aided projects only one application to the Ministry of Finance would be required for authorizing the release of budgeted funds (which would then be released in four quarterly instalments) in place of the separate applications formerly required for release of each instalment. Other simplifying procedures have been approved for ongoing projects under revision or which have not been formally approved by the National Economic Council. The effectiveness of these procedures in removing the bottlenecks to the release of project funds will have to be judged by the experience in the operation of these procedures in the next few months.

HPGassner :DADunn :mms

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Record note of discussions with the
President of the World Bank Mr. Robert
McNamara in Washington on February 27,
1976.

(No World Bank
classification).
B. Moore
11/30/84.

I met the World Bank President Mr. McNamara at the Bank Building at 6.00 p.m. of February 27, 1976. I was accompanied by Mr. M.R. Siddiqi, Bangladesh Ambassador in Washington and Mr. Matiul Islam, Alternate Executive Director in the Bank. Mr. Stern, Vice-President of the Bank was also present. The meeting lasted a little over half an hour. Mr. McNamara heard me with keen interest and his response was encouraging.

I began by referring to Mr. McNamara's personal interest in water resources development and his known desire to do something for the development of the Eastern rivers. I mentioned my long experience in the field of water resources development including the Indus Basin Project and the World Bank Programme on water development in Bangladesh. I then traced the history of Farakka negotiations between India and Pakistan and between India and Bangladesh.

I explained the implications of the agreement of April, 1975 on the running of the feeder canal of the Farakka Barrage from 21st April to 31st May, 1975 and pointed out that India had been continuing withdrawals of large quantities of Ganges water even after 31st May, 1975 without prior consultation and concurrence of Bangladesh, mentioning its serious effects from November, 1975 leading to Bangladesh sending protest notes to India on this matter. I informed Mr. McNamara that India in their reply had made discussions conditional limiting them to only so-called lean months of mid-March to mid-May. Actually, in the changed circumstances following heavy Indian withdrawals, the critical period had advanced to January and Bangladesh wanted a fair allocation of Ganges water for the whole year. It was not correct, I said, that Bangladesh had refused talks. As a matter of fact, we had always been ready for discussion, and we had done so all these years without coming to a fair allocation

contd....2:

of the waters of the Ganges between the two countries. I said that the situation would be getting worse in the coming months if India does not stop such large withdrawals.

I said that we wanted to apprise the World Bank President of the situation and to request him to consider if he would exercise his good offices to persuade India to discontinue such unilateral withdrawals and agree to a solution of the problem in a way which does not adversely affect Bangladesh. I referred in this connection to Mr. McNamara's message of last February communicated to me for conveying to the then President of Bangladesh offering his good offices to solve the Ganges water problem if both the countries approached the World Bank in the matter, and World Bank's willingness to assist in finding out a technical solution of the problem. I said further that we also would like to have World Bank's technical assistance in the preparation of a perspective plan of water development in the light of present circumstances and available data and in working out a long-term solution of the water problem on the Ganges and the Brahmaputra rivers for which Mr. McNamara had in the past expressed his personal interest. Concluding I conveyed to Mr. McNamara the invitation of the President of Bangladesh for visiting Bangladesh at his earliest convenience.

Mr. McNamara first conveyed his thanks to the President of Bangladesh for the ~~inxxx~~ invitation and expressed his desire to visit Bangladesh sometime. Referring the possible World Bank role in the development of the eastern rivers, Mr. McNamara said that he had been anxious to help the governments of the then Pakistan and India to optimise the use of the Ganges water for the benefits of both the countries and had personally spoken to President Ayub and Mrs. Gandhi at that time. He said that he was still prepared to help the two countries of India and Bangladesh if they asked him to do so. Mr. McNamara said that India was not going to ask the Bank to resolve the Farakka dispute but he was ready to do whatever he could in the matter quietly. He was, however, concerned about the news appearing in the Bangladesh Observer on the Bank's involvement in this politically sensitive

issue. I told him that Bangladesh Observer was known to be an admirer of the World Bank and particularly of Mr. McNamara and it was perhaps an expression of their hope and confidence that the World Bank might do something in the matter. Mr. McNamara appreciate the remark, Mr. Stern interjecting that it would be better if it was a quiet admiration at this stage.

Mr. McNamara said that he was prepared to extend all possible help to Bangladesh in water resources development and he suggested that further discussions might be held by me with the Vice-President and senior officials of the Bank.

Referring to the long term basin-wise plan for the Ganges and the Bangladesh rivers, Mr. McNamara said that this programme which would stretch over a 15 to 20-year period would include three things - (a) collection and accumulation of basic data, (b) development of a programme and (c) assistance in financing the programme. Mr. McNamara said that Indian co-operation is essential for this long-term approach and that India knows about the Bank's interest in the matter and both the countries would do well to accept Bank's good offices for the long-term development of the eastern waters. Mr. McNamara said that he would like to probe into this matter quietly. Bank's objective will be to take long-term issues and in the meantime try to do something and the short-term issues will not be inconsistent with the long-term goals and objectives.

I thanked Mr. McNamara for the meeting and his encouraging response to our suggestions.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

FROM: Ernest Stern, ^{ED}VP, South Asia

SUBJECT: Joint Rivers - Your February 27 Meeting with Mr. Abbas

DATE: February 27, 1976

1. Mr. Abbas will be meeting you today at 6 p.m. at his request to discuss recent developments on the above problem.
2. You will recall that last year an interim agreement was worked out for the period April 21 - May 30, 1975, which allowed India to withdraw between 11-16,000 cusecs during that period from the Ganges at Farraka. No agreement is presently in effect.
3. India, in response to increasingly irate Bangladesh newspaper reports regarding water withdrawals, admitted recently that the Farraka Barrage has been operating at near its optimum capacity of 40,000 cusecs since June of last year, although it states that the adverse effects this has on Bangladesh's irrigation, fisheries and navigation have yet to be substantiated. Bangladesh claims significant saline intrusion and navigation difficulties and has stated that, as a precondition for talks with India on water sharing, India should cease forthwith all withdrawals through Farraka. Bangladesh argues that to restrict the talks to water sharing arrangements for the March-May period is unjustified and wishes discussions to focus on the entire dry season, November through May. India has responded by allocating to Bangladesh the blame for the failure to get talks on the problem started. A consequence of Bangladesh's precondition is that India has apparently retreated from its willingness to repeat an exercise similar to last year's interim agreement and has said that no agreement on allocation of waters is necessary or called for.
4. Bangladesh is clearly attempting to bring outside pressure to bear on India. A mass rally in Dacca recently endorsed an expression of deep gratitude to China for its support for Bangladesh on the Farraka problem. Mr. Abbas will also be seeing Deputy Assistant Secretary of State Dubbs in Washington, and the U.S. Government expects to be asked to use its "good offices" with India. One Bangladesh newspaper has claimed Bank involvement in support of Bangladesh and an "offer" to negotiate an Indus Basin type solution.
5. Abbas may mention to you, as Bangladesh officials did to me on my visit, a wish to revive the requests made by Pakistan in the late 1960's for the Bank to finance large barrage-type constructions on the Brahmaputra and Ganges Rivers. There is also talk of a Ganges-Brahmaputra link canal on Bangladesh territory. Such a link canal

from the Ganges Brahmaputra confluence to the affected areas (mostly in the southwest) may be more suitable, but it still involves a huge investment over a long period.

6. You should be aware that our planned irrigation lending in the Eastern States of India may well be affected by this dispute, which could already be linked, in a more minor way, to existing projects in Calcutta and Bangladesh. The availability of water will also have a major bearing on our planned activities in agriculture and inland transport in Bangladesh.

6. In responding to Mr. Abbas, we should make the following points:

- a) The Bank's position is, and must be, that our participation in seeking a joint solution depends on the consent of both riparians.
- b) The prospects of a joint approach to the utilization of the waters are small at best, but even the minimal prospects will be eliminated by the type of publicity campaign Bangladesh is mounting now. Quiet diplomacy, not confrontation, is required.
- c) In our view the longer term agricultural and power needs require an agreement on the utilization of the water resources of the whole area. A good deal of data collection and analysis is needed for the development of such a plan.
- d) The Bank would be prepared to assist in the collection of such data, and in the development of a plan based on it, provided both countries wish to proceed along these lines.
- e) Prior to the completion of such studies, investments in selected water projects (particularly groundwater development projects in Bangladesh) would be feasible, to relieve particular constraints.
- f) While we are strongly of the view that renewed efforts should be made to get bilateral talks started, on the full range of issues or on a more limited basis, and doubt that unilateral action by the lower riparian can be effective in the long term, we are prepared to look at any proposal of the Government of Bangladesh for technical studies or water development projects.

cc: Mr. Knapp
RBrigish/EStern:Ls

16

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

FROM: Ernest Stern, ^{ES}VP, South Asia

SUBJECT: Bangladesh - Admiral Khan's Visit

DATE: July 8, 1976

1. Rear Admiral Mosharrof Hossain Khan, Chief of Navy Staff and Deputy Martial Law Administrator for Bangladesh (in charge of Water Resources and Flood Control, Power and Communications) will visit you at 6:00 p.m. on July 13. A brief curriculum vitae of the Admiral is attached (Attachment I).

2. The Admiral will spend several weeks in the U.S. visiting American Naval Academies and seeing government officials and political leaders on matters concerning the United States' aid program in Bangladesh. In his discussions with the U.S. Government, the Admiral is expected to review the policy measures taken by his Government since last November on which we have reported to you previously. His visit to the Bank is intended primarily to discuss cooperation in the field of water management.

Background

3. You will recall that when Mr. Abbas, the Chief Advisor to the President on Flood Control and Water Resources, visited you on February 27, he asked for two things: (a) that we use our good offices with India in regard to Farakka, and (b) that we assist Bangladesh in utilizing fully the waters of its major rivers during the dry season. You responded along the lines of Paragraph 6 of the briefing note prepared for the meeting (Attachment II). We indicated that it was more likely that we might be able to initiate discussions with the GOI on the long term development of the water resources of the Ganges/Brahmaputra Basin than to play a specific role in regard to Farakka. In regard to Farakka, we emphasized the importance of renewing bilateral talks and urged Mr. Abbas to reduce the confrontational tactics and rely on a more quiet diplomacy. As to the request for assistance on water management, we indicated that we would be prepared to support studies and investments, to deal with particular constraints, including especially the development of groundwater resources. Such studies could contribute to the data necessary for the preparation of a longer term and broader water development plan.

4. In subsequent discussions, first with Mr. Abbas here and then when Messrs. Blobel, Picciotto and Dunn visited Dacca in mid-March, the scope and form of Bank Group assistance in the development of the water resources of the Southwestern region--the one most directly affected by the diversion at Farakka--were worked out.

Discussions with the GOI

5. After some initial enquiries regarding the willingness of the Government of India to discuss the problems of the water resources of

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the Ganges/Brahmaputra Basin, I made a special trip to Delhi in April to discuss the matter with the Finance Minister, Mr. Subramaniam, and the Minister of Agriculture and Water Resources, Mr. Ram, on which I reported to you upon my return. Briefly, given the known sensitivities of the Government to foreign involvement in this subject, I was pleasantly surprised at the frankness with which it was possible to discuss the issue. The GOI view of long-term development of water and power resources in the Ganges basin is not very different from ours. It is understood that well before agricultural development in the Gangetic Basin reaches its full potential in India and Bangladesh, ways will have to be found to augment the volume of water presently available by storage up-stream, as well as by development of the Brahmaputra and of groundwater resources. Furthermore, it is recognized that development along these lines requires collaboration with Bangladesh, which is effected by increased use of water up-stream, and with Nepal for use of available sites for storage which could augment Ganges flows during the dry season. The Ministers appreciated that the scope of these activities was beyond the capacity of any of the countries, or the three countries together, to finance, and that external assistance would be required. A few days after my visit, the Minister of Agriculture made a statement in Parliament on the subject in which he noted publicly the need for a cooperative approach.

The Status of Farakka

6. In regard to Farakka, the current situation is as follows. During January and February of this year, the significant diversions of water from Farakka reduced the flow in the Ganges in Bangladesh to historically low levels. Subsequently the Government of India agreed voluntarily to reduce its offtake, but what this turned out to mean was that the discharge into Bangladesh was not reduced any further. While there were problems in regard to inland water transport, saline intrusion, and inability to operate pumping stations, there are, as India was quick to point out, no reliable data to show how severe any of these factors were. India suggested that the existing machinery of the Joint Rivers Commission be used to assess the effects. Technical level talks between the two countries were resumed in late March, and a number of visits have been exchanged. While these have served to improve relationships and take some of the political heat out of the subject, they have not yet resulted in an agreement. Mutual "goodwill" visits that were meant to follow soon after the earlier technical exchanges were postponed, each side being unable or unwilling to provide the data requested by the other party as to the effects of the operation of Farakka. When the two sides did meet in Dacca on June 18-22 (Rear Admiral Khan led the Bangladesh delegation), they were unable to come to terms even on the text of a joint communique. On various occasions, the Government of Bangladesh has sought to enlist the international community in this dispute, an action not designed to endear it to India. For instance, at the Islamic Foreign Ministers' Conference in May Bangladesh made Farakka a major issue and a few days ago in London the Admiral called for international participation to resolve the problem. The Government of Bangladesh has insisted

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that any agreement must provide a permanent allocation of the waters throughout the year. The Indian position is that at most they are prepared to discuss the allocation of waters during the period mid-March through mid-May when flows are at their lowest. Since, at present, there is no problem except during the low-flow season and since the future pattern of agricultural development in the region is still uncertain, which makes the water use requirements uncertain, Bangladesh's position seems unnecessarily rigid and, considering that the low-flow season actually is nearer four months than two, India's too restrictive.

7. In any event, if asked, we should reiterate our position that we cannot become involved in the dispute unless asked to do so by both parties.

Assistance to Water Resources Development

8. In regard to our assistance in the development of the water resources of the Southwestern Region in Bangladesh, agreement was reached in principle on a two-phased approach.

9. Phase one would comprise: (a) an assessment of the effects of possible "low-flows" in the Ganges on a number of facets of economic activity in Bangladesh, and (b) short-run remedial measures which could be implemented to assist Bangladesh in mitigating the effects of the low flows. Phase one would also have as an objective the preparation of terms of reference and preliminary cost estimates for a second phase, designed to outline longer-term measures and related priority investments--for example in groundwater development and small-scale civil works to close some estuaries affected by salinity--for the affected regions within Bangladesh, using alternative assumptions regarding river flows. In early April we agreed with the Government on terms of reference for the first phase of the study to the Government and agreed to finance the requisite consulting services from our Technical Assistance credits. An inter-departmental Steering Committee headed by Admiral Khan and a Special Studies Directorate under the Chairman of the Water Development Board were established on April 15, 1976 to carry out the special studies.

10. An essential element in our decision to support the proposed studies was the assurance we obtained on the highest level that the studies would be used solely for developing more effective use of water resources, and would not be the basis for an assessment of the damage caused to the country by the diversion of Farakka.

11. While in response to the sense of urgency which the Government conveyed to us in March we did our best to enable the preliminary field investigations of the effects of the low flow to begin soon, delays that have occurred since on the Government's part will make it impossible to undertake remedial works by the time the next low flow season begins. It was not until late June that consultants' proposals were invited.

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Proposed Talking Points

12. With this background, we suggest that in your discussions with Admiral Khan you draw on the following points:

- (a) GOB should continue its diplomatic efforts with India to find a mutually acceptable solution to the Farakka problem. Although no agreement has been reached yet, we are encouraged by the fact that discussions have been resumed.
- (b) The long-term development of water and power resources in the Ganges/Brahmaputra Basin is essential if the standard of living of the people in the region is to be raised. The full development of these resources is a massive and complex undertaking which will require the cooperation of the three states involved. The formulation of a program to develop these resources requires a good deal of data collection and analysis, and financial planning, in which the Bank would be prepared to assist if the countries wished to proceed along these lines.
- (c) The Bank has agreed, as a matter of urgency, to assist the Government of Bangladesh in studies of water resources development including groundwater in the Southwest--the area affected most by low water flows in the Ganges. However, we have been concerned with the slow pace at which many of our projects in the agricultural and water resources sectors are being carried out. In our view, it will require the serious and sustained commitment of Government at the highest levels to ensure that implementation capacity of the various executing agencies responsible for these sectors is strengthened. Unless this is done the studies now being started will not yield results.
- (d) We are particularly concerned with the Water Development Board, which is responsible for the studies and any follow-up program. Special efforts by Government will be needed to provide adequate staff for the Water Board, to expedite the recruitment of consultants, to strengthen its management and to assure the full cooperation of other Governmental agencies (such as the Ministries of Agriculture, Transportation, Forests, Fisheries and Livestock) which will be working with the consultants and the Water Development Board in assembling and analyzing data for the Southwest region. We continue to be of the view that it is premature to consider major projects, such as barrages or storage dams in Bangladesh.

Attachments (2)

cc: Messrs. Knapp, Blobel, Picciotto, Rowe, Pranich, Dunn, Alisbah o/r
RBrigish/EStern/MBlobel:pn

CURRICULUM VITAE OF
REAR ADMIRAL MOSHARROF HOSSAIN KHAN
CHIEF OF NAVAL STAFF
AND DEPUTY CHIEF MARTIAL LAW ADMINISTRATOR
OF BANGLADESH

Rear Admiral Mosharrof Hossain Khan is 44 years old. He graduated from the training ship "DUFFERIN" in Bombay in 1949 with First Class honours. In 1951 he joined the Pakistan Navy in Karachi as a Naval Cadet. Later that year he proceeded to the United Kingdom for training with the Royal Navy at Dartmouth. He was commissioned in the Royal Navy in 1954 and continued to serve in it, receiving further training inter-alia through a course in the Royal Naval College, Greenwich near London.

Rear Admiral Khan then held various operational appointments, including the command of destroyers and other vessels.

Rear Admiral Khan was withdrawn from the Command of P.N.S. KHAIBAR on April 14, 1971 because he was a Bengalee, and subsequently he was interned in Karachi. On his return from Pakistan he was appointed Chief of Naval Staff, Bangladesh Navy, in 1974.

He was appointed to his present position of Deputy Chief Martial Law Administrator in August, 1975. At present he holds the portfolios of Flood Control, Water Resources, Power and Communication.

DECLASSIFIED

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July 15, 1976

WBG ARCHIVES

CONFIDENTIAL

Mr. Leonard Weiss
Chief, World Bank Resident Mission
Bangladesh Bank Building, 4th Floor
Motijheel Commercial Area
G.P.O. Box 97
Dacca, Bangladesh

Dear Len,

Admiral Khan visited Mr. McNamara on July 13. The meeting was a fiasco in terms of presenting information, obtaining assistance, or creating favorable impressions about the senior management of the country.

Contrary to expectations, the Admiral did not focus on the question of the Eastern Waters but got to that subject only 40 minutes after his arrival, at which point he was 10 minutes over the allotted time. He started by raising the question of how the gap between the estimated requirements and the Consortium pledges could be met, obviously being unaware of and uninformed about our response to Mahmood. He seemed to suggest that IDA should make up all or part of that difference. Mr. McNamara made it clear that there was no prospect of increasing the IDA allocation this year since we simply had no money available. He went on to stress the difficulties which lay ahead in regard to IDA V and his negotiating strategy for obtaining a large and timely increase. The Admiral displayed little interest in the subject which, as should be obvious, is crucial for the resource flow to Bangladesh. Mr. McNamara indicated that he had just been to the U.K. and had discussed with both the U.K. Government and the Commonwealth Secretary his hopes for the conclusions relating to IDA from the Commonwealth Finance Ministers Conference, to be held immediately preceding Manila. He urged Admiral Khan to make sure that his delegation was informed and would provide appropriate support for a resolution which would call for expeditious action and a substantial increase in IDA.

The Admiral then turned to the question of project implementation and to my consternation suggested that delays in project implementation were the fault of the external agencies, including the Bank. All references to problem areas in Bangladesh, such as delays in the NEC, approval of consultant contracts, and local currency funds for projects were waved aside as "now having been remedied". Even a reference to our speedy provision of a shortlist of consultants for the Southwestern Groundwater Development Study and the subsequent long delay by the Government was explained in terms of the fact that they would have preferred a single individual rather than a firm. He concluded this long and wandering discussion with a suggestion that monthly meetings to discuss these issues might be desirable, being unaware that such meetings are in fact held regularly.

July 15, 1976

He then turned to the need for additional investment in infrastructure. Early in the week we had received the Government's printed document on the requirements of the railways, and the Admiral indicated that it was urgent to move ahead with those, as well as additional investment in inland water transport, highways and the acquisition of a merchant marine. While he makes a persuasive case on some aspects, he again seemed to have no grasp of actual developments, such as the fact that there is a two-year old loan from the Asian Development Bank for the railways which remains largely undisbursed and that we are having a hell of a time formulating the Second Inland Water Transport Project. Mr. McNamara told him that he of course would be prepared to respond to whatever priorities the Government of Bangladesh established if he thought these were reasonable and asked which of the projects presently in the pipeline should be dropped to make room for the transportation projects. The Admiral had of course not thought that far and fell back on the rather lame statement that everything in Bangladesh was of high priority and that what he was looking for was additional resources. I suggested that at least in so far as the railways were concerned, it seemed to me that they should continue to look to the Asian Development Bank for financing since that institution by now had considerable experience with the system. Moreover it had announced a potential commitment of \$100 million at the Consortium. Having the international agencies specialize seemed to me a better idea than having them compete. (I did not add that it would be much more efficient to have the Asian Development Bank continue to concentrate on railways and stay out of the agricultural credit sector where we had been planning to make a considerable effort.) The Admiral requested that we convene a meeting of donors in Dacca to review the transportation sector requirements, and I promised to ask you to do so. We indicated that in our view this meeting would not result in the pledging of additional resources but that it might be useful in order to coordinate interests of donors in this sector. The Admiral's basic objective is to obtain additional aid. (The only areas in which I see any prospect of this may be in connection with international shipping, where the market is very poor and some countries might be interested in unloading ships on credit.)

Finally, the Admiral turned to the question of Farakka. Its presentation was highly emotional, including a threat to fight, and devoid of useful specifics. He again asked us to use our good offices but indicated a Government strategy which would make such an exercise totally futile. The two preconditions he seemed to be indicating were (a) that the longer term development of the water resources of the area must be discussed without any reference to the Brahmaputra. Bangladesh is only prepared to talk about development of the Ganges. And (b) he suggested that agreement, at least in principle, on the nature of the long term solution would be necessary before Bangladesh would be prepared to discuss an interim solution for Farakka. We gave him the usual response that the Bank could only assist the three States if they were willing and that thus far not all had been. We also indicated that in our view an approach more likely to be fruitful would be to work out an interim agreement on Farakka to get the most acute friction out of the way and then to try and sit down with the other parties to discuss the long-term development of the river basin without any preconditions at all. In response to a request for suggestions as to what Bangladesh might do next, the Admiral was almost unwilling for Mr. McNamara to complete his sentences, which dealt with continued quiet and persistent diplomatic efforts. At the end he pulled out

Mr. Weiss

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July 15, 1976

a paper which he presented, saying that since the Bank was unwilling to do anything else, perhaps it could do this. The paper was a project description of the Ganges barrage with a total estimated cost of \$620 million. When, after glancing at it briefly, Mr. McNamara expressed some surprise at the large foreign exchange requirement given Bangladesh's other urgent needs, the Admiral said that this could be reduced considerably if the Bank would just make a program loan available to "import boulders and steel" which he would supplement by having a core of laborers on the site within days. The fact that they are still peddling this 15-year old proposal and the total lack of realism about the costs involved is not encouraging.

I have described the session in some detail since I wanted to convey as much of the flavor as possible. The impact on Mr. McNamara of course was not positive, but the more important point is that at so senior a level in Government, there is so little understanding of some of these very basic issues.

Best regards,

Sincerely,

Ernest Stern
Vice President
South Asia

bcc: Messrs. Picciotto
Blobei
Dunn

EStern/lis

17

OFFICE MEMORANDUM

TO: FILES

DATE: December 16, 1976

FROM: Leonard Weiss

CONFIDENTIALSUBJECT: Mr. McNamara's Visit, November 3-6, 1976:
Ganges Water Problem**DECLASSIFIED****SEP 19 2012****WBG ARCHIVES**Background

1. So far as the GOB was concerned, the most important item on the agenda of Mr. McNamara's visit was the Ganges water problem. This was so not only because of the great intrinsic economic and political importance of the issue for Bangladesh, but also because the GOB hoped that the Bank could play a constructive role in resolving the differences between it and the GOI. However, instead of preparing an exposition of its position in order to lay a basis for renewed negotiations, the GOB seemed to expect uncritical endorsement of its position or Bank proposals for change. Mr. McNamara was prepared to do neither. He had come to Dacca on a general purpose visit. While he was prepared to listen to any Government views and proposals on the water problem, and convey a message to Delhi if this could be done appropriately, he could not frame proposals without having been requested to do so by both parties. In any event, the Bank did not believe that it could play a useful role on Farakka. The issue of the utilization of the Eastern Waters in the longer term posed major technical and financial questions which the Bank might be able to assist in, if requested by both parties. Although both points had been explained frequently to the GOB at all levels, they were disappointed to find them unchanged. Nonetheless, the discussions proved fruitful. Mr. McNamara had three meetings on the subject of water resources, the most important of which was the final one involving General Ziaur Rahman. The three meetings are summarized below.

Meeting of November 3, 1976

Participants: Admiral Khan, in charge of Ministry of Flood Control and Water Resources; Mr. Abbas, Advisor to the President on Water Resources; Tobarak Hossain, Foreign Secretary; Messrs. McNamara, Stern and Weiss.

2. At a brief meeting on the evening of November 3, Admiral Khan sought Mr. McNamara's thoughts on resolving the Ganges water problem between Bangladesh and India. Mr. McNamara made clear that he had come to hear the Government's ideas and proposals for resolving the dispute. He felt it was inappropriate for him to advance proposals, or even to give a judgement on GOB proposals, since doing so might be construed by the Government of India as an unwarranted intervention in the matter. Nor would he feel free to communicate to Bangladesh anything given to him by the GOI in confidence, just as he would not feel free to impart to the GOI any confidence expressed to him by the GOB. He would, however, convey to the GOI proposals or suggestions of the GOB, if they so wished.

3. After further sparring, Admiral Khan reaffirmed the GOB's desire to have the Bank participate in a study for a long-term solution to the utilization of the Eastern Waters and to lend its good offices in arriving at a solution to the immediate problem.

4. Mr. McNamara stated that if India and Bangladesh wish, the Bank would be willing to undertake technical and economic studies for the optimal development of the water resources of the Ganges-Brahmaputra Basin. If the two countries could agree on this measure, it would represent a major step forward and in our view would appreciably improve the political atmosphere. It would thus facilitate bilateral negotiations between the two countries on an interim solution to the Farakka dispute.

5. Mr. McNamara resisted suggestions by Admiral Khan that the Bank undertake a mediating role on Farakka. The Bank could not become involved in any dispute unless requested to do so by both parties, and thus far the GOI had made it clear that it considered the Farakka dispute a question for bilateral discussion. Moreover, the essentially political nature of the dispute suggested that the Bank could contribute little. The contribution the Bank could make, if both countries agreed, would be to undertake a technical and economic study for a long-term solution and thereby pave the way for the two countries to resolve the immediate problem through bilateral discussions.

6. In response to Admiral Khan's questions, Mr. McNamara made it clear that if it were agreed that the Bank undertake the long-term study, it would have to be all-encompassing, including the possibility of arrangements on the upper reaches of the Ganges outside Bangladesh as well as a study of the Ganges-Brahmaputra link. What the study would do is analyze all the possible options which would contribute to the optimal development of the water resources of the Ganges-Brahmaputra Basin but without commitments of either of the parties to any particular option. After the study was completed, the parties could then consider the options and, through negotiations, agree on a mutually acceptable solution. In answer to a further question by Admiral Khan, Mr. McNamara indicated he envisaged Nepal would be included in the study since there were several storage sites of importance to controlling the river flows.

7. In answer to Admiral Khan's question as to how long such a study would take, Mr. McNamara said he could not, and would not wish to, suggest a set time for completion of the study. He would be willing, however, to give the study very high priority and provide as much resources as possible by drawing both from within the Bank's personnel and on outside experts. Mr. Abbas guessed the study might take from three to five years. Mr. McNamara and Mr. Stern hoped the study could be done sooner than that and at least more in the three-year end of the range than the five-year.

Meeting in Afternoon of November 5, 1976

Participants: Admiral Khan and Mr. McNamara

8. The meeting was very brief and solely for the purpose of transmitting to Mr. McNamara a two-paragraph note (copy attached) providing a Bangladesh proposal for dealing with the Ganges water problem.

Meeting in Evening of November 5, 1976

Participants: General Ziaur Rahman, Admiral Khan, Air Commodore Mahmood, Dr. Huda, Mr. Abbas; Mr. McNamara, Mr. Stern, and Mr. Weiss.

9. The focus of the discussion was the note which Admiral Khan had given Mr. McNamara earlier in the afternoon. Mr. McNamara was asked for his reactions to the note.

10. He started with the second paragraph of the note proposing the World Bank undertake a study for a long-term solution. He indicated a third party could assist both on a long-term study and in mobilizing the very large amount of financing likely to be necessary to carry out the solutions suggested by the study. Because of the importance of the problem and the helpfulness of a third party in doing a study which the countries at issue could accept as objective, Mr. McNamara was prepared to have the Bank undertake the study if the countries concerned so wished.

11. He made it clear that he interpreted the study called for in the second paragraph to be a study designed to analyze and propose solutions for the optimal development of the water resources of the Ganges-Brahmaputra Basin.

12. As regards the first paragraph of the note dealing with the immediate issue of Farakka, he was not familiar with the April 1975 agreement and could not comment on it. In any case, however, he believed the short-term solution to deal with the immediate question of Farakka was a problem for the two countries rather than the Bank to take up. He indicated the way the Bank could help is to agree to undertake the long-term study if India and Bangladesh requested this. He recognized that it would not be possible to undertake the long-term study before an interim solution on Farakka had been agreed to. But agreement by the two countries to have a long-term study made by the Bank would improve the political climate and thereby help the two countries to come to an agreement on the short-term, interim arrangement on Farakka diversions.

13. In response to a comment by Admiral Khan, Mr. McNamara made clear that the Bank would not be prepared to undertake a long-term study if any conditions were put on the scope, character or method of the study. Thus, if a party proposed to rule out consideration of the upper reaches of the Ganges, the Bank would not undertake the study.

14. Admiral Khan noted the proposal for a link canal presented problems for Bangladesh. Could the study be phased so as to consider the Ganges first and the Eastern Rivers later? Mr. McNamara replied emphatically that what he said about the upper reaches of the Ganges applied equally to the Ganges-Brahmaputra link canal. He could not accept any conditions which would exclude study of the link canal or predetermine the order in which it or other possibilities would be studied.
15. Admiral Khan inquired how then would the Bank proceed in the study. Mr. McNamara replied he could not say now but he thought it unwise for either party to apply any conditions on the study and, in any event, the Bank could not accept any. Mr. Stern added the Bank must be free to study all possibilities; the Governments concerned would then be free to accept or reject any or all of the possibilities.
16. Admiral Khan indicated the Government wanted the Bank to serve as the third party doing the long-term study but he was concerned whether the study would prejudice the decision of the countries concerned on the solution to adopt. Mr. McNamara replied the role of the World Bank is not to decide what solution countries should accept. That would be the decision of the countries directly involved. Mr. Stern added that the process leading to an agreement consisted of three major stages. First, a study which both sides could accept as objective. Second, political negotiations about how respective needs could be met within the technically feasible approaches. Third, provision of external finance for what would undoubtedly be a major investment program. The availability of finance would also affect what solutions would be feasible. At this point only the first stage was at issue. There was no commitment to any further steps by either country. Nor, for that matter, would there be any commitment by the Bank to anything beyond the technical study.
17. Admiral Khan asked whether it could be stated explicitly that the study would cover Nepal as well as India and Bangladesh. Mr. Stern replied that if this were done, it could complicate getting agreement on the study, since it would give India an excuse to suggest that before it can react to the proposal, Nepal should be talked to first. Thus it would be better not to refer to Nepal but to make clear there are no conditions on the study. Admiral Khan stated there would be no trouble with Nepal, since the Nepalese Government had indicated in discussions with him it was prepared to be included in a long-term study and solution to the problem so long as India does not object.
18. Mr. McNamara suggested we would try to devise language for the scope of the study which would, without specifically naming Nepal, meet the GOB concern to have Nepal covered. Similarly, he suggested language might be devised to cover study of the Brahmaputra and the idea of a link with the Ganges without explicitly referring to the Brahmaputra and the link canal.

19. General Zia indicated the GOB cannot think of accepting a link canal and elaborated his views on a short-term solution to the Farakka problem. He stated India intends to shift its port from Calcutta to Haldia. Thus, India is not really interested in diverting water at Farakka for the purpose of flushing the Hooghly, since such action would be relevant only if the port were to remain at Calcutta. It is in his view diverting water at Farakka to put pressure on Bangladesh (implicitly, to make it subservient to India and compliant in meeting its wishes). He stressed that a short-term solution to the Farakka diversion is of the greatest urgency and a matter of life and death for Bangladesh. The long-term study and solution are fine but they are a dream and a long time away. The problem Bangladesh faces right now is the diversion at Farakka, for which an immediate solution must be found.

20. Though not entirely satisfied, the Government was agreeable to a long-term study by the Bank. It appeared to accept, though with some reluctance and ambiguity, that there could be no conditions on the scope of the study and the way in which the Bank went about doing it. It indicated it was ready to resume bilateral discussions with India, suggesting that it might do so in New York. It was against this backdrop that Mr. McNamara proceeded to New Delhi to discuss the problem there.

21. Admiral Khan asked what the next step would be for the parties to get together on the short-term problem. Mr. McNamara stated he could not say. Admiral Khan inquired whether it would be possible to arrange a meeting of India and Bangladesh in New York. Mr. McNamara presumed this would be a possibility.

Attachment

cc: Mr. McNamara ✓
Messrs. Stern/Blobel/Picciotto/Dunn
Mr. Weiss

LWeiss/EStern:ls

Attachment

It has become urgently necessary that the existing flow of the Ganges at Farakka be allocated between Bangladesh and India on an agreed basis. In the opinion of the Government of Bangladesh, the agreement of April 1975 offers a basis for an extended period for the solution of the immediate problem.

The Government of Bangladesh also consider an agreement on the approach to the long term solution of the problem is necessary. The Government of Bangladesh desire that the World Bank undertake a comprehensive study of the water resources of the Ganges basin for the Development of additional water supplies in the dry season as well as for multipurpose benefits of flood control, irrigation, hydro-power generation and other developments.

FILES

November 17, 1976

Ernest Stern, VP, South Asia

CONFIDENTIAL

Memorandum of Conversation -
Dacca, Bangladesh
Wednesday, November 3, 1976, 7:30 p.m.

DECLASSIFIED

SEP 19 2012

WBG ARCHIVES

Present: 1. Rear Admiral M.H. Khan
2. Dr. Abbas, Special Advisor
3. Mr. Tobarak Hosain, Secretary, Foreign Affairs
4. Mr. McNamara
5. Mr. Stern
6. Mr. Weiss

1. After a brief welcoming remark, Admiral Khan asked what the Bank's views were on how the present acute water issue, i.e. the diversion at Farakka, could be resolved. Mr. McNamara responded by noting that one of the reasons we had come to Dacca was to learn the views of Bangladesh. The Admiral repeated his request, adding that it would be useful to know what we knew about Government of India views, since the GOB position was well known. Mr. McNamara reiterated that we had come to learn, that he would appreciate a summary of the GOB views even though these might be well known, and that he could not speculate about the attitude of the GOI. He went on to explain that the Bank would do whatever it was asked by both parties, but if there were such a role for the Bank, it precluded discussing communications of the one party with the other unless specifically authorized.

2. Admiral Khan said the GOB position was clear. It was entitled to all the lean season flow in the Ganges; the Hooghly could be flushed during the monsoon period. In regard to the longer term solution, there could be no discussion of the Brahmaputra Link Canal, but Bangladesh recognized that a study of the longer term issues was desirable. He ended by asking what the Bank could do to get India to agree to this position.

3. Mr. McNamara responded that the long-term development of the region, where 200 million people lived in poverty, was a vital matter of deep interest to the Bank. We could be of assistance in a study of what this development would entail, including the optimal use of all available water, and would make all necessary resources available. Whether the Bank could assist in the specific dispute about Farakka diversion was more doubtful, but we would do whatever was requested of us. Agreement on a Bank role in the longer term study would undoubtedly facilitate the bilateral solution to the current Farakka problem.

November 17, 1976

4. Admiral Khan demurred, saying that the lean season had already started and the matter was urgent. How could Bangladesh know that India would not stall if nothing was known of Indian intentions. Mr. Stern pointed out that Bangladesh ran little risk. We would be in Delhi next week and would find out then what the Indian reaction to any GOB proposal might be. There was no possibility of protracted delay. The Indian position on third party involvement on Farakka was well known, and not likely to change quickly, but the same position might not apply to a study for the longer term solution. The willingness of both parties to agree to such a study and to ask for Bank participation would be evidence of a willingness to agree quickly on an interim solution to Farakka.

5. Mr. Tobarak Hosain then summarized by saying that the Bank would, if asked by both Governments, participate in a techno-economic study of the longer term developments. Such a request by both Governments would reflect a political will to deal with the water problem and imply a willingness to come to agreement on water availability for this dry season. Mr. McNamara agreed that this was the essence of the situation, and that the Bank would play such a role if requested. If the Bank undertook such a study, it would provide all parties with a common set of facts and provide greater certainty that any interim solution to Farakka diversions would become part of a broader settlement.

6. Admiral Khan then enquired how long such a study might take. Mr. Abbas intervened to say that he thought it would take three to five years. We said that the full scope remained to be determined and that before that, any guess would be highly speculative. The problem was complex and the work would have to involve data collection so that about three years might well be required, though we would hope to be able to shorten that.

Cleared with Mr. McNamara

cc: Messrs. McNamara, Blobel, Picciotto, Weiss

EStern/lis

18

Mr. McNamara's note of conversation with General Ziaur on
November 5, 1976 is in original copy only - no distribution.
Filed in Mr. McNamara's office.

19

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: M.M. Islam *mm*

SUBJECT: Meeting with Mr. Saifur Rahman, Adviser

DATE: March 28, 1977

2/28

Although Mr. Saifur Rahman is holding the portfolio of Commerce and Foreign Trade in the President's Council of Advisers, he is also a Member of the National Economic Council. In addition, Mr. Rahman is one of the four Members of the Executive Committee of the National Economic Council. In this latter capacity he is intimately connected with the approval, sanction and implementation of all development projects financed by IDA and other donors in all sectors.

It is more for his role in the Executive Committee of the National Economic Council that prompted him to see Mr. McNamara during his visit to Washington. He would very much welcome and appreciate any comments that Mr. McNamara may have on IDA-Bangladesh matters.

E 1555

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Ernest Stern, VP, South Asia

SUBJECT: Visit of Mr. Saifur Rahman; 5:45 p.m., March 29


DATE: March 29, 1977

1. Mr. Rahman was appointed in December 1976 as a member of the President's Advisory Council with responsibility for the Ministry of Commerce. Mr. Rahman, about 45 years old, obtained a degree in Chartered Accountancy from London in 1958 and received training in "advanced management" in the United Kingdom in 1962. He is a Fellow of the Institute of Chartered Accountants of England and Wales. Until his appointment, he was a partner of the Bangladeshi auditing firm of Rahman, Rahman, and Huq. (One of our financial analysts has described the firm as the best accounting firm in Bangladesh and a good firm by international standards.) Mr. Rahman has served as a member of the National Pay Commission (1970-73), Tea Industry Enquiry Committee (1972), Industrial Workers' Wages Commission (1973), and from 1973-75 served as a member of the Nationalization Compensation Committee, Committee on Conditions of Tea Garden Workers, and Committee on Bonus and Retirement Benefits for Banking Institution Employees. He has served as President of the Institute of Chartered Accountants of Bangladesh and of the Dacca North Rotary Club, Vice President of the Narayanganj Chamber of Commerce and Industry, and Treasurer of the United Nations Association of Bangladesh and of the Bangladesh Institute of Law and International Affairs. Mr. Rahman led the Bangladesh delegation to the Commonwealth Conference of Accountants in New Delhi in 1975 and represented the United Nations Association of Bangladesh at the World Population Conference in Bucharest in 1974. He has traveled widely in Europe, Asia, and America. His article, "Changing Needs in Accounting Education", was published in the Handbook of the Commonwealth Conference of Accountants in 1975.

2. Mr. Rahman's firm has been involved with Bank Group projects at various times, including projects in the fields of water supply, development finance companies, and the Cyclone Area Rehabilitation Project.

3. I met with Mr. Rahman yesterday morning. We covered project preparation, implementation problems, and the Ashuganj Fertilizer Project. On project preparation, we stressed the need to staff the project preparation cells in the sectoral ministries and in the Planning Commission. We pointed out that the pipeline for 1978 and 1979 was very weak and that it was quite likely that Bangladesh would not be able to utilize the increase in IDA funds which might be available. The Government has taken some important steps and has asked us to provide assistance in staffing these units under our Technical Assistance Credit. However, more needs to be done and this deserves high priority attention.

March 29, 1977

4. The availability of IDA financing depends not only on the state of project readiness but also on improvements in implementation capacity. While we appreciated that some useful measures had been taken in the past year, the decision making process on awards of contracts and the hiring of consultants is still excruciatingly slow. Too often, the Government initiates programs or projects with several donors simultaneously which not only leads to subsequent confusion but also has led to significant delays. Implementation matters are so bad in the water resources area that we are reluctantly coming to the conclusion that we cannot finance any new activities there until significant improvements have been made. Mr. Rahman indicated that he was aware of these implementation problems and that the newly invigorated Project Implementation Bureau was beginning to function effectively to bring bottlenecks to the attention of the appropriate authorities. The Government also recognized that the most difficult area was in water resources and an intensive review had been initiated by the Project Implementation Bureau. He hopes that changes should be ready to be announced within the next month. 

5. However, the principal objective of his visit was to discuss the Ashuganj Fertilizer Project. In addition to several other problems, this project has a problem regarding possible seismic activity. We have had two of the world's best consulting firms on seismic problems study the matter, and both have concluded that there is a danger of subsoil liquification which needs to be guarded against. They have recommended compaction of the site. The Government has taken the position that there is no seismic risk, or at least that they cannot acknowledge that for fear of having to guard against that in all other projects. They fail to understand that the risks to be guarded against in a fertilizer plant necessarily are very different from the risks to be guarded against in other structures. However, to "accommodate the donors", they have agreed to a partial compaction. We received their proposal last Thursday and promptly cabled it to our co-financiers (U.K., U.S., Germany, Iran, Switzerland, and the Asian Development Bank). We ourselves need to complete our technical analysis and then comment on the Government proposal as part of a coordinated donor response.

6. While we have been assured that Mr. Rahman's visit with you is simply a courtesy call, he is likely to raise the Ashuganj Project. If he does so, you should make no substantive comment, refer to his discussion with me, and assure him that we will let him know as soon as we have completed our review and have received the views of the other lenders. You might stress, as I did, that the Government decision should be based on an assessment of the risk to an otherwise viable project and not on a desire to accommodate donor pressure.

HGassner/ESTern:ls

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OFFICE MEMORANDUM

TO: Files

DATE: September 30, 1977

FROM: David A. Dunn, Chief, ASADD *DA Dunn*SUBJECT: BANGLADESH: 1977 Annual Meeting Discussions

1. The Bangladesh delegation to the Annual Meeting met with Mr. McNamara at 1.50 p.m., Wednesday September 28.^{1/}
2. Mr. McNamara, welcoming Dr. Huda, thanked him for supporting, in his speech to the meeting, the efforts to increase the resources of the World Bank Group. Dr. Huda congratulated Mr. McNamara on his election to a third term as President of the Bank.
3. Mr. McNamara asked Dr. Huda to tell him how things were going in the country. Dr. Huda said that despite bad weather which caused short-falls totalling about 1 million tons in the FY76-77 boro and aus rice crops, the economy had made some progress during the year. GNP had increased by 3% in spite of the agricultural problems. Prospects for FY77-78 were better. The aman crop was expected to be good. The Government had increased

1/ Attending the meeting for the Bangladesh Government were:

Dr. M.N. Huda, Member, President's Advisory Council, in charge of Ministry of Planning and Governor, IBRD
 Mr. S.A. Khair, Secretary, Ministry of Finance and Governor of the IMF
 Mr. A.M.A. Muhith, Secretary, External Resources Division, Ministry of Planning and Alternate Governor, IBRD
 Mr. M. Syeduzzaman, Alternate Executive Director
 Mr. S.R. Karim, Economic Minister, Embassy of Bangladesh
 Mr. A.M. Nurul Islam, First Secretary, Embassy of Bangladesh

Attending for the World Bank were:

Mr. McNamara
 Mr. Knapp
 Mr. Stern
 Mr. Chenery
 Mr. Blobel
 Mr. Dunn

its domestic foodgrain procurement target to a half million tons and hoped to achieve this by a higher procurement price and improvements in the procurement system. Policies on public foodgrain distribution also would be revised. Access to public distribution would be rationalized and the ration mixture would be changed to include more wheat.

4. Dr. Huda said that while the Government had been disappointed by the shortfalls in pledges for commodity and food aid made at the Aid Group Meeting in July, they were encouraged by the decision to have a real review of their food aid needs at a follow up meeting around the end of 1977. The Government's procurement plan was designed to benefit small farmers. Policy changes to ensure this and affecting other issues discussed by donors in July would be announced soon.

5. Dr. Huda reminded Mr. McNamara of the Government's proposals for economic planning. The Government intended to have a two year interim plan covering 1978-80, both to test the success of new policies and to provide sufficient time to develop a five year plan for 1980-85. A perspective plan to the end of the century would also be prepared. The Government was pleased that arrangements were proceeding for the Bank to finance technical assistance for its planning efforts. The Government intended to incorporate some new ideas, including proposals to mobilize voluntary labor. Rural Development programs would be central to the overall strategy and would be reviewed with prospective donors at a meeting in October. The thrust would be on helping the poor and on increasing employment. Small industries and rural electrification would be included. Locally elected institutions, such as union and thana councils, would be prominent in executing the program.

6. In concluding his review of the situation Dr. Huda noted that considerable progress had been made on two key problems: implementing the population program and improving the foodgrain storage situation.

7. Dr. Huda then made several suggestions about future Bank Group lending to Bangladesh. He suggested that the Bank consider project proposals for: development of natural gas resources, rural electrification, low cost housing, and urban transport. Following up on the suggestion in his speech that the Bank Group's worldwide program lending targets should be increased, he requested a higher level of program lending for Bangladesh. He said that program lending in Bangladesh had been a success, both in terms of quick disbursement, and performance in executing the agreed programs of action.

8. In response to Dr. Huda's remarks, Mr. McNamara stressed that the Government's efforts to improve food production and the food distribution program were vital, since donors' attitudes on food aid would be determined by the Government's efforts on these points. In this connection, he wondered what the Government was doing to improve the policies and operations of the Water Development Board. Dr. Huda said that the Government would shift the emphasis of Water Board projects to shorter gestation, lower capital intensity projects. He noted

that the Government had invited the Bank to send a mission to help review the programs and operations of the Board.

9. Turning to Dr. Huda's suggestions on Bank Group lending, Mr. McNamara noted the intention of the Government of Japan to double their levels of development assistance. In order for Japan to do this, viable projects would have to be put to them quickly. Mr. McNamara mentioned this because the same thing affected the ability of the Bank Group to increase its assistance to Bangladesh. If Bangladesh was to get its fair share of IDA resources, and increased resources from bilateral donors such as Japan, there would simply have to be better efforts to prepare viable projects. IDA lending in FY77 had been less than it could have been because of a shortfall in projects. Mr. McNamara was concerned that this would happen again in FY78. Program lending could not be the answer, for two reasons. First, IDA's Articles were clear in stating that program lending had to be an exception; thus it was difficult to justify large and continuing amounts of program lending to any country. Second, there was always opposition to program lending, especially if it seemed to be substituting for a lack of projects. The Bank Group simply could not substitute program lending for projects. Mr. McNamara cited as an example the importance which the Bank had attached to the building up of a project pipeline in India in order to increase lending levels. He also noted that it was vital not just to have projects, but to have projects which were being successfully implemented. Noting that disbursement on projects in Bangladesh was poor, and had been lower in FY77 than FY76, he remarked that in similar circumstances the Bank Group had almost had to abandon its lending program to Indonesia.

10. In these circumstances, Mr. McNamara said, it was clear that program lending to Bangladesh could not exceed the percentage of total lending that it now represented.

11. Dr. Huda thanked Mr. McNamara for his remarks and noted that the Government recognised the weakness of project execution and had introduced many measures to try to improve performance by streamlining review and monitoring procedures. He hoped to see better progress this year. Mr. Muhith said that he hoped that the Bank would try to be flexible in dealing with project problems in Bangladesh since these problems had to be expected in a "less developed" country. Mr. Muhith also said he hoped that the present percentage distribution of IDA lending between projects and program lending could be maintained.

12. Mr. McNamara concluded the meeting by saying that while he hoped the Bank Group would always be flexible, the Government must understand that the Bank had a responsibility to demonstrate that its lending was effective. Only in that way could the Bank continue to raise the resources required to maintain appropriate levels of lending to countries like Bangladesh.

cc: Messrs. McNamara, Knapp, Stern, Chenery, Blobel, Koch-Weser, Russo

DADunn:mms

21

MEMORANDUM FOR THE RECORD

Meeting with Mr. Hossain, Director of the Center for NIEO Studies, October 11, 1977

Present: Messrs. McNamara and Hossain

Mr. Hossain said that, out of the Paris discussions, a general consensus had developed among members of the G-77 that more policy and strategy-related research on NIEO related issues was needed. This led to the establishment of a Center for NIEO Studies last week in New York. The Governing Board would have the following members: Messrs. Perez-Guerrero (Chairman), Ramphal (Vice Chairman), Musa Bello (Nigeria), Jamal (Tanzania), Jazairy (Algeria), Abdul Maguid (Egypt), Yaganey (Iran), Sen (World Bank), Thahane (World Bank), Shihata (OPEC Special Fund), and Hossain. The Center would initially be located in Oxford and would count on the availability of start-up funds of about \$500,000, mainly to be provided by the OPEC Special Fund. At a meeting in January 1978, about a dozen experts would be convened to identify and agree on priority areas for research. Two broad areas of research had already been suggested: (i) energy options for LDCs, and (ii) intra-Third World cooperation, particularly between OPEC and non-OPEC countries. Mr. Hossain said that he had talked to Messrs. Stern and Karaosmanoglu and that Mr. Stern had suggested the Center draw on the Bank's reservoir of information. Mr. McNamara said that he was delighted to learn about this recent initiative because he felt that the North/South dialogue lacked an intellectual foundation. He suggested Mr. Haq to be the main contact for the Center in the Bank. Mr. Hossain replied that he had invited Mr. Haq to attend the planned January meeting.

cc: Mr. Chenery
Mr. Clark
Mr. Stern
Mr. Karaosmanoglu
Mr. Haq

CKW
October 12, 1977

22

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: January 18, 1978

FROM: Manfred G. Blobel, Director, ASA

SUBJECT: Meeting with Bangladesh Delegation, January 16, 1978

1. Dr. Huda, Adviser to the President of Bangladesh in Charge of Planning called on Mr. McNamara on January 16, 1978. He was accompanied by Mr. Siddiqi, Ambassador to the U.S., Mr. Muhith, Secretary, External Resources Division, Mr. Karim, Economic Counselor, Bangladesh Embassy, and Mr. Syeduzzaman, Alternate Executive Director. Also present for the Bank were Messrs. Hopper and Blobel.

1127
2. Dr. Huda handed Mr. McNamara a letter from the President of Bangladesh (copy attached). Mr. McNamara first addressed President Zia's request that the Bank take special interest in assisting the long-term development of the water resources of the Brahmaputra/Ganges Basin, now that Bangladesh and India had agreed how over the next 5 years the low-season flow of the Ganga is to be shared. Recalling that one of his first acts, after becoming President of the Bank, had been to take up this matter with the then heads of Government of India and Pakistan, Mr. McNamara assured Dr. Huda that the Bank stood ready to provide whatever assistance the riparian countries wanted it to make available in exploring how the regional resources could best be developed for their joint benefit. Dr. Huda welcomed this re-affirmation of the Bank's support. He noted that the next step, as they saw it, was for the Joint Rivers Commission, which had yet to meet, to discuss what studies were needed to lay the ground for joint future development.

3. The discussion then turned to the level of IDA support for Bangladesh's development efforts. Dr. Huda noted that the Government's 2-year interim plan, the preparation of which was about to be completed and which was due to take effect on July 1, 1978, reflected his Government's view that much had been achieved in expanding their capacity to manage developmental activities. He stressed, as President Zia had done in his letter, the need for external financial support in translating that enlarged capacity into projects and programs, since the resources the country itself could mobilize would remain severely limited. In particular, he appealed to Mr. McNamara that IDA raise its level of lending in the current fiscal year above the \$150 million currently planned which he noted was less than the amount indicated at the meeting of the Aid Group last July. In this context, he asked that IDA pay particular attention to the country's needs in developing its infrastructure. In response Mr. McNamara assured Dr. Huda that IDA was very sensitive to the needs of Bangladesh and fully cognizant of the efforts that President Zia and Dr. Huda in particular had made in strengthening development administration in Bangladesh.

In particular he (a) gave it as his view that it would be prudent for Bangladesh, which would need external assistance in substantial amounts for a long time to come, build up the requisite support by demonstrating that it could in fact use external aid, in particular IDA's effectively for development of the country; (b) stressed that with that end in view, Bangladesh should look to IDA not for program lending in amounts larger than the \$75 million a year currently planned, but rather for increased lending for projects; (c) while noting that IDA had decided to raise the share of financing of projects from 70% to 75% and, in exceptional cases, to an even higher percentage, explained that IDA's willingness to increase its lending for projects depended on Bangladesh's ability not only to put forward new projects that were sound, but also to demonstrate, through the implementation of on-going projects, that it was making effective use of IDA funds put at its disposal in terms of both disbursements, which he noted had remained stagnant over the past three years despite substantial new commitments, and the developmental impact of these projects; (d) told Dr. Huda that he would be happy to see \$170 million and even more of IDA funds going to Bangladesh during the current fiscal year but said that in his view Bangladesh would be unable to put forward sound new projects to make use of the amount of \$150 million currently planned and, equally importantly, to slow 'reasonable' progress in the execution of ongoing IDA-supported projects; (e) encouraged Dr. Huda to take up with the Region his Government's particular proposals for IDA support, including those mentioned in President Zia's letter, and similarly, review with the Region whether the recent increase in IDA disbursements for projects and current progress in the execution of IDA-supported projects constituted 'reasonable' performance in the use of IDA resources.

Attachment

cc: Messrs. McNamara
Knapp
Hopper
Stern
Picciotto
Waide
Dunn

MBlobel:ef

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



Cc. Messrs. Hopper

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PRESIDENT

PEOPLE'S REPUBLIC OF
BANGLADESH
Dacca

15 January 1978

Dear Mr. McNamara,

It is with great pleasure we recall the fruitful discussions we had during your last visit to Bangladesh. We are really impressed by the deep understanding of the World Bank regarding our problems, and genuine anxiety among our friends to find ways and means to rapidly raise the standard of living, particularly in the rural areas. I had then mentioned about the great need to develop the infrastructure in Bangladesh. I take this opportunity to write to you on some ideas that we have since developed for planned investment in infrastructure and water resources sector.

In the field of infrastructure I invite your attention to three sectors which are of great significance to the rapid economic development of Bangladesh, particularly of the poorer section of its people.

A Master Plan for road development is currently being processed and is expected to be finalized soon. We have decided to give priority to the communication sector, because it is so vital for realizing our objectives of overall development of the economy, particularly in agriculture, while also reaching the benefits of development to the rural areas.

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PRESIDENT

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We have only 2,600 miles of main highways. Our experts estimate that some limited increase in the mileage of highways should accompany development of 5,000 miles of link-roads to the rural areas to give maximum benefit to the poorer section of the population. I have no doubt that of the available modes of transport, road transport, because of short hauls and smaller load, has the greatest appeal. Our strategy in the Master Plan is to construct an arterial road between Dacca and the southern port town of Khulna, and to build a network of link-roads to connect the primary and secondary rural market places with urban centres.

Two other sectors which will directly benefit the poorer section and which call for immediate attention from the Govt. are low cost housing for the urban population, and a special employment programme for the squatter population of Dacca City. The housing programme will aim at covering 6.5 million urban population of Bangladesh, while employment programme will be aimed at providing opportunities to half a million people of Dacca city.

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PRESIDENT

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Compared with our own resources the tasks are gigantic but the fact remains that these are vital to the economic development of Bangladesh. The Government therefore, cannot escape this responsibility. The Administrative machinery is now sufficiently geared to plan and implement such development programmes. But evidently, a large volume of financial and technical assistance on a long term basis would be required to fulfil these objectives.

I would like to mention another subject of great importance to this region, namely, a regional plan to exploit the resources of Brahmaputra and the Ganges. Following the Farakka agreement on sharing of water resources in this region, we are now poised for developing long term projects for the Brahmaputra-Ganges basin. This, ofcourse, will need cooperation between the three countries through which the river system is flowing. As a preliminary step, I am exploring possibilities of such cooperation through my discussions with the Heads of the concerned Governments. Because of the huge investment involved and also because of the careful studies required, I request the World Bank for special interest in this programme. We know that the Bank has developed enough expertise in this

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



PRESIDENT

-: 4 :-

enough expertise in this field from its past experience in mobilizing financial and technical help for the Indus Basin works, and hence this request to you.

I have addressed you this letter hoping that it would be realised how important and urgent the needs are. If the programmes of this size are to be undertaken we have to plan carefully and without delay. Assured by the fact that we have always received from you sympathetic response to our request, I know this will also receive your personal attention and support.

May I also take this opportunity to invite you to pay a visit to Bangladesh so that you are able to review the progress we have made since our last meeting, and also to discuss our problems, plans and the extent of our preparedness.

With warm regards.

Yours Sincerely,

Mr. Robert S. McNamara,
President, IBRD,
Washington D.C.,
U.S.A.

OFFICE MEMORANDUM

312.

TO: Mr. Robert S. McNamara, President
(through Mr. David Hopper, RVP, South Asia)

FROM: Manfred G. Blobel, Director, ASA

SUBJECT: BANGLADESH: Dr. M. N. Huda's Visit

DATE: January 13, 1978

1. Dr. M. N. Huda, Member of the Council of Advisors to the President in charge of the Ministries of Planning and Commerce, will visit you at 6:00 p.m. on January 16. A brief curriculum vitae of Dr. Huda is attached.

2. Dr. Huda is visiting Washington to attend, as head of the Bangladesh delegation, the special meeting of the Bangladesh Aid Group on Food Aid on January 19. We have been told that he wishes to discuss with you the IDA lending program and "water projects", which we take to mean the Eastern Waters issue, following the recent agreement with India on Farraka. This note contains a brief on these two subjects and on two other issues (Ashuganj Fertilizer and Technical Assistance for the Planning Commission) which may arise during the discussion.

1/13

IDA Lending Program

3. You may recall that at the Annual Meetings last September, Dr. Huda said both in his formal address and at his meeting with you that the Bank Group's worldwide program lending targets should be increased; he also requested specifically a higher level of program lending to Bangladesh. You replied that we could not substitute program for project lending, that the amount of program lending could not exceed the current 50 percent proportion of total IDA lending to Bangladesh (although this was in fact exceeded in FY1977 owing to slippage of other projects) and that, if Bangladesh was to get its fair share of IDA resources, it would have to make greater efforts to prepare viable projects. You also told Dr. Huda that it was vital not only to have a pipeline of well-prepared projects but also to improve the implementation of the existing ones.

4. Of the current planned lending of about \$150 million to Bangladesh in FY1978, two operations amounting to \$80 million have already been approved (Inland Water II and Imports Program VI). Two projects amounting to \$46 million have been negotiated recently and will be presented to the Board shortly (Jute and Foodgrain Storage II) and three projects (Small Industry II, Agricultural Research and Ashuganj Supplementary) remain to be negotiated. Of the last three, only Small Industry II (\$7 million) is sufficiently well advanced to be considered a reasonable certainty for approval by the end of the fiscal year. In this event, total lending would amount to only \$133 million, compared with \$122 million last year. We would expect, if you approve, to add the \$17 million shortfall to the FY1979 allocation. The FY1979 lending program includes nine operations amounting to \$210 million (including \$75 million for a program credit) but this is likely to be achieved only with difficulty and substantial staff effort.

January 13, 1978

5. The Bangladesh CPP, which you reviewed on January 13, noted inter alia that the Government, with considerable IDA assistance, had recently taken steps, albeit slowly, to expand and diversify the pipeline of projects potentially suitable for external financing. We are hopeful, if not very optimistic, that the results of these joint efforts may begin to be reflected in terms of new projects and increased lending during the next 2-3 years. However, while the Government's endeavors towards improved project preparation are laudable and should be supported, we have yet to see evidence of a similar commitment towards improved project implementation, although the present record in this respect is mixed. Disbursements against projects, which were lower in FY76 than in FY75, declined further in FY77 to \$24.8 million, despite increases in amounts outstanding. Disbursements against projects in the first six months of FY78 were \$17.5 million. In the circumstances, you may wish to reiterate that increased IDA lending depends on improved project implementation, a point which the delegation to the Annual Meeting appears to have missed or ignored. They have informed us now that there is a project pipeline, they expect higher allocations of IDA funds, and specifically more than \$150 million this fiscal year.

6. You should also emphasize, with regard to project preparation, that a shopping list of "aidworthy" project proposals, although a necessary first step, is not itself a sufficient basis for an immediate increase in lending. What we and other external aid agencies require is a pipeline of well conceived and well prepared projects with supporting economic and technical analyses. Until this has been accomplished, with or without technical assistance from outside, the scope for any substantial increase in lending in the near term is bound to be limited.

7. You may also wish to reiterate the policy approved in the CPP review to limit program lending to the current absolute amount, and to note that we have now decided to finance up to 75% of total project costs as a general rule, and up to 90% in exceptional cases.

Eastern Waters

8. You are aware that the Farraka Agreement, signed by India and Bangladesh on November 5, 1977 referred to the need for both countries to cooperate in finding solutions to the long-term problem of augmenting the waters of the Ganges during the dry season. The British Prime Minister stated in Dacca on January 5, 1978 that if the countries of the Region wished to embark on schemes to tap any or all of the river systems of the area, the UK would be ready to help finance the studies required as a first step. He said Britain would also cooperate in finding finance for whatever schemes were agreed on. Both Mr. Callaghan and President Carter, when in India, referred to the opportunities for further progress afforded by the Farraka accord. Mr. Stern also raised again with India the question of Bank assistance in further studies, but was rebuffed. In the circumstances, there is no reason to change the approach recommended in the memorandum dated November 28, 1977 sent to you by Mr. Stern.

Ashuganj Fertilizer Project

9. This project is currently scheduled to be completed in September 1980, about two years behind the appraisal schedule. The latest cost estimates are about \$338 million equivalent (including \$188 million in foreign exchange) compared with about \$250 million equivalent (of which \$142 million in foreign exchange) at the time of appraisal. The Government has asked the lenders ^{1/} to finance the foreign exchange cost overruns under the project. Broadly, the reasons for the delays and the overrun include initial difficulties encountered by the Government in negotiating contracts with the General Engineering Firm and the Management Assistance Firm, delays by the General Engineering Firm in initiating the procurement of time-critical items and in planning for construction, and the need for further site preparation to protect the plant against earthquake risks.

10. A lenders' Supervision Mission in December 1977, which had expected to prepare proposals for supplementary financing, reported considerable uncertainty regarding the project's schedule and cost estimates. In addition, the project's management arrangements, which have never functioned satisfactorily, are still not working well and the Government is proposing changes in the organization of the executing agency, the Ashuganj Fertilizer and Chemical Company (AFCC), and its contractual arrangements with the Management Assistance Firm. With the site preparation now nearing completion, the next few months should be taken up with critical work on plant construction. The next few months are also vital to firming up the project schedule and costs so that supplementary financing can be arranged and further delays avoided. In these circumstances, the lenders' mission proposed that a four-man project management consulting team be retained for a period of about four months to assist in finalizing the project schedule and cost estimates, to monitor the project over this critical period, and to analyze further the shortcomings in the current arrangements between AFCC and the Management Assistance Firm and recommend improvements. We hope to secure the Government's agreement to this proposal during Dr. Huda's stay.

11. If Dr. Huda raises this subject, you should emphasize the need for the Government to work closely with the lenders in working out a solution to the project's management problem to cover the coming months. The Government/AFCC should not undertake any action to remove the expatriate consultants presently retained by AFCC before suitable replacements are available.

Technical Assistance for the Planning Commission

12. Dr. Huda may raise this subject again, in view of its origins during your visit to Dacca in November, 1976. The facts are that, following prolonged and at times difficult discussions about the scope and subsequently the terms of reference of the technical assistance requested, we agreed last summer as an exception to normal procedure to assist the Government in inviting and evaluating consultants' proposals. Our evaluation and recommended short list of three firms was handed personally to Dr. Huda by Mr. Stern at the Annual

^{1/} In addition to IDA, the ADB, USAID, ODM, KfW, Switzerland and Iran are providing foreign exchange for the project.

Mr. Robert S. McNamara

- 4 -

January 13, 1978

Meeting. Since then, we understand the Government has invited two institutions (Harvard Institute of Development Services and Economic Consultants Limited) to submit detailed proposals which, according to our latest information, are still under consideration. As far as we are concerned, the ball is in the Government's court at this point and, if Dr. Huda raises the issue, you should request him to clarify the Government's intentions and current timetable. Meanwhile, we have tentatively earmarked \$2.5 million of the Technical Assistance Credit 622-BD for this sub-project.

Attachment

cc: Mr. Stern

RBrigish/DPearce/DADunn:sma

Biographical Sketch of Dr. Huda

Dr. M. N. Huda, the Governor for the Bank, was appointed a Member of the Council of Advisors to the President, in charge of the Ministries of Planning and Commerce in November 1975. Dr. Huda is 58 years old. He received a PhD. in agricultural economics from Cornell in 1949 and was at one time professor of economics at Dacca University. He was appointed Minister of Finance and Planning in the East Pakistan Government in 1965 and was appointed Governor of East Pakistan in March 1969. He resigned from Government service in July 1969 and rejoined Dacca University, later becoming Chairman of the Economics Department. In 1973 he was appointed Vice Chancellor of Chittagong University. He led the Bangladesh delegation to the last two Annual Meetings.

OFFICE MEMORANDUM

TO: Files

FROM: David A. Dunn, Chief, ASADD *DADunn*

SUBJECT: Farewell Visit of Ambassador Siddiqi to Mr. McNamara

DATE: July 26, 1978

7/27

Ambassador Siddiqi and Mr. McNamara met at 6:30 p.m. on July 25. Ambassador Siddiqi's visit was a courtesy call to say farewell and thank Mr. McNamara for his efforts on behalf of Bangladesh. Mr. McNamara asked about the Ambassador's future plans (politics and business in the form of a small pharmaceutical firm). They briefly discussed the Government's family planning program. The Ambassador asked if Mr. McNamara's visit to Bangladesh in October was firmed up yet. Mr. McNamara replied that it depended on the progress of serious discussions affecting the Bank Group (IDA replenishment, IBRD capital increase, the Kafka Committee) and that he could not give a definite response now to the Government's invitation but would do so as soon as possible.

cc: Messrs. McNamara, Hopper, Blobel, Koch-Weser

DADunn:pn

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President
(through Mr. Manfred G. Blobel, Acting RVP, South Asia)

FROM: David A. Dunn, Chief, ASADD *DA Dunn*

SUBJECT: Farewell Visit of Ambassador Siddiqi

DATE: July 14, 1978

1. As you know, His Excellency Mustafizur Rahman Siddiqi, Ambassador of Bangladesh to the United States, will pay you a farewell visit at 6:30 p.m. on July 25th. Mr. Siddiqi was appointed Ambassador by Sheik Mujibur Rahman in July of 1975 and has continued to serve as representative for the two subsequent administrations. He will return to Bangladesh on August 2, depart from government service, and resume his business activities.

2. A brief biographical sketch of Mr. Siddiqi is attached for your reference. We do not expect any serious issues will be raised during your meeting.

Attachment

cc: Mr. W. David Hopper, RVP, South Asia (o/r)

TDoyle:pn

BIOGRAPHICAL DATA OF HIS EXCELLENCY, MR. SIDDIQI,
AMBASSADOR OF BANGLADESH TO THE UNITED STATES

Mr. Mustafizur Rahman Siddiqi was born on March 1, 1925. He received an M.A. in Commerce from the University of Calcutta in 1947, a B. Commerce from the University of London in 1954, and qualified as a Chartered Accountant in England in 1955. In that year, he was also elected a Fellow of the Royal Economic Society and of the Royal Statistical Society.

A successful businessman, Mr. Siddiqi has served as director of some ten corporations. He was the founder and first director of the Eastern Mercantile Bank, Eastern Insurance Company, Ltd., and S.K.M. Jute Mills Ltd. He was also Founder and Chairman of the Management Association of East Pakistan. In addition, he has served as a member of the Advisory Council to the Ministry of Commerce, Pakistan and has represented Pakistan at the ECAFE Conferences in Bangkok and Tehran.

Mr. Siddiqi began his career as a Government official in 1962 when he was elected a member of the National Assembly of Pakistan. He was re-elected in 1970. When the Independence War broke out in 1971, he was put in charge of the Eastern Zone, Bangladesh, and afterwards was posted to the U.S.A. as Head of the Bangladesh Mission in Washington. In 1972, he returned to Bangladesh to become the Minister of Commerce. He was subsequently sent in 1973 as Special Envoy of the Prime Minister to call on the Heads of State of France, U.K., Germany, Italy, Holland, Canada and the U.S.A. That same year he was re-elected a member of the Bangladesh Parliament.

Besides his important contributions in government and business, Mr. Siddiqi is a dedicated social worker who has served four terms as the District Governor of Lions International. In 1961, he received the organization's highest honor, "The Humanitarian Award", for exceptionally meritorious work during the cyclone and tidal wave of 1960. Prior to becoming Ambassador, he was the International Counsellor for the Lions. He was also President of the Bangladesh-Japan Society.

Mr. Siddiqi is married and has five sons.

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: September 28, 1978

FROM: David Dunn, Chief, Bangladesh Division *DD*SUBJECT: BANGLADESH - Mr. McNamara's Meeting with Dr. Huda, Minister of Finance

1. Mr. McNamara met with Dr. Huda, Minister of Planning, at 9 a.m. on September 27. The Minister was accompanied by Ambassador Husain, Messrs. Khair, Muhith, Syeduzzaman and Rahman. Messrs. Hopper, Koch-Weser and I were also present.

10/17
2. Mr. McNamara began the meeting by saying that he was extremely disappointed with the Bank Group's program in Bangladesh. He said that commitments of new IDA credits were below the amount for which Bangladesh would be eligible, that existing projects were going too slowly, that the project pipeline was too thin and preparation too slow, and that the dialogue between the Bank and the Government seemed to be dominated by too many serious misunderstandings and confrontations. He said it was time for both the Bank and the Government to stand back from these problems, assess them, and work together to solve them. Dr. Huda said that, contrary to Mr. McNamara's impression, he had the feeling that things were improving. Project disbursements had gone up after being stagnant for three years, the Government was working on improving its project preparation capacity, Bangladesh's progress had been welcomed by the most recent meeting of the Aid Group, and the Government was trying to improve its administrative capacity and was seeking to define new approaches in areas such as rural development, population control and cottage industries.

3. Mr. McNamara acknowledged that some progress had been made but said that the program was still in a very bad state; an example of the problems was the Ashuganj Fertilizer Project. Dr. Huda said that here, too, he thought things were going better. Mr. Muhith noted that construction on the project was now proceeding and that the first phase of foundation work was now catching up to schedule after initial delays. Management assistance for the construction phase had been arranged, and negotiations were under way with four firms for similar assistance during the operations phase. He said that in these circumstances it would be wrong for lenders to delay progress by holding up supplementary financing until a contract was signed for operations phase management assistance. He requested Mr. McNamara to take the IDA supplementary proposal to the Board without waiting. Mr. McNamara replied that this was not possible. IDA could not go ahead, given the background of the project, without firm management arrangements for both the construction and operation of the plant.

4. Dr. Huda said that he had hoped to show Mr. McNamara some evidence of tangible progress on many fronts during the President's proposed visit to Bangladesh. Mr. McNamara apologized for having had to cancel his trip and explained the pressing concerns affecting the future of the Bank and IDA which compelled him to be in Washington when he had hoped to be in Dacca.

5. Mr. McNamara, noting that one problem facing IDA projects was a shortage of local currency, asked Dr. Huda what the Government was doing to increase domestic resource mobilization. Dr. Huda replied that the Government was gradually reducing subsidies and cited as examples recent increases in the fertilizer price, the price of rationed foodgrains and fares for transportation services. Following the recommendations of the recent World Bank report, the Government had established five committees to study particular areas of concentration; these were to report to the Government with recommendations for action by the end of November and further action based upon these recommendations could be expected after the parliamentary elections scheduled for December. In response to a question from Mr. McNamara, Mr. Khair said that savings were currently running at about 6% of GDP but that the Government was hoping to improve that figure to 8.5%. Mr. McNamara stressed that in order to continue local currency financing and to urge other donors to do the same, the Bank would have to see rising savings, which could only be achieved by forceful measures to increase tax revenues, reduce subsidies and eliminate the deficits of public sector industries.

6. Mr. McNamara next turned the conversation to the subject of agricultural production and asked Mr. Hopper if there was a long-term strategy for food production in Bangladesh beyond the framework of a 5-year plan allocating expenditures. Mr. Hopper said that the Region had discussed the need for such a strategy with the Government, who agreed that a medium-term 5 - 15 year strategy was important. Mr. Hopper said that he and the Government would continue to discuss the ways in which the Bank could best assist in devising such a strategy. In this context, Dr. Huda mentioned that the Government was trying to come up with new ideas for attacking rural development and hoped that some experiments being carried out during the Two-Year Plan period would lead to some new ideas and approaches to rural institutions.

7. Dr. Huda and Mr. Muhith turned to the topic of the fertilizer supply position for FY79, which was extremely difficult and could seriously affect foodgrain production. The Government's target was to increase distribution to 800,000 tons and build up stocks to the level of five months' supply, which many donors felt was critical. Even with optimistic projections of domestic fertilizer production, which was always uncertain, and given the confirmed commitments from donors, the Government estimated its shortfall at 240,000 tons. Several factors had contributed to this gap. The Government had hoped to use the EEC Special Action Fund to purchase fertilizer but this would not now be possible in time for the FY79 crop; Saudi Arabia was unable to supply the quantities expected because of other commitments; and price increases had reduced the amounts expected from some bilateral sources, such as the US and UK. The Government had gone back to all bilateral donors and squeezed all it could out of them. In these circumstances, the Government requested IDA to help. Mr. McNamara said that the only way IDA could help in time would be through the Program Credit and he inquired about its status. Mr. Hopper explained that it was now pending approval by the Loan Committee and that negotiations were expected soon. Mr. McNamara

asked Mr. Hopper to look into the Program Credit to see if the funds could be reallocated to make room for financing fertilizer. Mr. Muhith responded by saying that what the Government was requesting was an increase in the amount of this year's Program Credit by \$25 million. Mr. McNamara replied that that was impossible; he did not think he would be able to get approval for such an increase. Mr. Muhith said that substituting fertilizer for other eligible items was not acceptable; it would penalize the industries to be assisted by the Credit. Fertilizer was top priority and additional funds should be allocated for it. Mr. McNamara replied that if fertilizer were the first priority, then it should be possible to rearrange the allocations to the beneficiary industries.

8. Mr. Muhith then said that for FY80 the Government requested a sector loan for two years for fertilizer imports and storage. Mr. McNamara said that this would be considered but took the occasion to emphasize that it was vital to get existing projects on their feet and to establish a good project pipeline. Unless these two conditions were met, he would not be able to justify either sector or program credits. The Bank's Board had clearly established that program or sector lending could not be used as a substitute for project lending.

9. Mr. Muhith said that while it was true that progress on projects was unsatisfactory in Bangladesh, some of the well-known causes for this were beyond anyone's ability to improve, and thus an unsatisfactory position would have to be lived with. However, the Government believed that it was making progress now. The Rural Development project was finally moving and more could be achieved; there had been problems with the Population Project but measures had been taken recently to address these; project disbursements were up not only for IDA credits but for all aid. Procurement and the hiring of consultants were still problem areas, but the Government had looked into these and he had brought to Washington, for comment by the Bank, some proposals for improving the Government's procedures. Mr. Muhith said that since the Government was making these efforts, he felt it was appropriate to give Bangladesh program aid. Mr. McNamara replied that he was already doing that, in the form of \$75 million per annum. Mr. Syeduzzaman said that without an increase in that amount to finance fertilizer, IDA projects would suffer. Mr. McNamara said that the Government should not have had to come to IDA at the last minute with such a request, and he urged the Government and the Region once again to re-examine the \$75 million to see if there were not some room for reallocation to finance fertilizer.

cc: Messrs. Hopper
Picciotto
Koch-Weser
Storarr
Bangladesh Division
Dir.'s Office, ASA

DDunn:ad

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811
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: November 10, 1978

FROM: W. David Hopper, RVP, South Asia *wdh*SUBJECT: Visit of Ambassador Tabarak Husain, Bangladesh; 6:00 p.m., November 15

1. H.E. Tabarak Husain, Ambassador from the People's Republic of Bangladesh to the United States, took up his post in Washington on October 2, 1978.
2. Ambassador Husain was born April 6, 1924 in Dacca. He obtained a Master's degree in Economics from the University of Dacca and did post-graduate work in International Relations in the School of Economics, University of London, UK. He joined the career diplomatic service of Pakistan in October 1949, and served in Embassy diplomatic posts in New Delhi, The Hague, Bangkok and London. He was appointed Director-General in the Pakistan Ministry of Foreign Affairs in March 1968 with rank of Ambassador. Ambassador Husain was appointed Foreign Secretary of Bangladesh in November 1975 (permanent head of the Ministry of Foreign Affairs). He represented Bangladesh in many international conferences including the Commonwealth Prime Ministers Conference and the United Nations General Assembly, where he was Deputy Leader for 1976 and 1977. He accompanied the President of Bangladesh on his State Visits to India, Pakistan, Nepal, Burma, Indonesia, Japan, China, Saudi Arabia, U.A.E., Iran and Egypt.
3. The ambassador is married and has three sons, ages 23, 14 and 10.
4. *Mr. Dumas will represent the Region.*

HGassner:pn