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Contacts with member countries. Bangladesh - Correspondence 03

OFFICE OF THE PRESIDENT

Meeting with Mr. Muhith, Secretary, External Resources Division of Ministry of Finance, Bangladesh, June 12, 1979

Present: Messrs. McNamara, Muhith, Syeduz-Zaman, Hopper

Mr. Muhith (a) asked for increased program lending to Bangladesh and for consideration of this issue by next April's donor meeting, (b) reported on progress made with respect to the country's food policy, e.g. a progressive reduction in subsidy, and warned that a substantial shortfall in food production was expected because of drought, and (c) reported on the Government's program for utilizing gas for fertilizer production.

Mr. McNamara said he was delighted that projects disbursement performance had improved but the difficulties of developing a strong program for commodity assistance and program lending still remained. Under the approved Bank program loan, there was still a problem with regard to the jute industry. As to the country's food policy, the Government had to cut back on subsidies to the higher-income groups. In light of lack of such action, it would be difficult for the Bank to justify program lending. Finally, he pointed to the serious issue of the Government's give-away price for gas.

Mr. Muhith extended his Government's invitation for Mr. McNamara to visit Bangladesh. Mr. McNamara replied that he would be willing to visit Bangladesh at an appropriate time.

CKW
June 21, 1979

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

FROM: W. David Hopper, Vice President, South Asia *WDH*

SUBJECT: BANGLADESH: Your Meeting with Mr. A. M. A. Muhith

DATE: June 11, 1979

1. You have an appointment at 6:30 p. m. on Tuesday, June 12, to meet Mr. A. M. A. Muhith, Secretary, External Resources Division of the Ministry of Finance of the Government of Bangladesh. I will have met Mr. Muhith for lunch, and again beginning at 2:30 with my staff, earlier the same day.

2. We have been informed that this is to be a courtesy call, but there are three subjects which I think Mr. Muhith may raise with you. These are discussed below.

6/12
3. Food Situation. In the months since the last meeting of the Aid Group in January, the Government has become increasingly concerned about the food situation for this year's "lean period" which is roughly from now through October. The Government's concern is over its ability to meet what it expects to be high levels of offtakes from the food-grain rationing system.

4. Foodgrain production was lower in FY79 than was expected in January, although the drop is marginal, from the FY78 record of 13.1 million tons to the latest Government estimate for this year of 12.9 million tons. Causes included inadequate rainfall and a shortage of diesel fuel for irrigation pumps. Public foodgrain stocks are lower than expected. Government procurement from the main (aman) winter crop was low. There were three main reasons for this. First, of course, was the lower than expected crop. Second, the official procurement price was too low. Third, the Government administrative machinery was partially diverted from the procurement drive and directed towards President Ziaur Rahman's parliamentary election campaign. A further cause of low stock levels is that some food aid shipments have been delayed beyond the dates when they were expected by the Government. The Government cites the United States (whose US FY79 pledge was 400,000 tons) as the principal culprit, although the US Government claims deliveries of its food aid are not delayed beyond their plans.

5. In addition to these difficulties, prospects for the next rice crop (aus - which is harvested around September) may be poor. It would appear that early rainfall before the onset of the monsoon might have been inadequate.

6. The Government mentioned these concerns to me in March but did not request any assistance; by May the Government was describing the

situation as a crisis and began to request additional assistance from food donors. They also asked that I call a special meeting of the Aid Group to discuss the situation. I responded that I would only be willing to call such a meeting if there were prospects that additional food aid would emerge, and if the Government had taken action or would be ready to announce actions on a number of outstanding food policy issues which were discussed at the last special food meeting of the Aid Group in January 1978. I promised to discuss the prospects for a meeting with the Heads of Delegations to the India and Pakistan Consortium meetings in Paris last week, and I did so.

7. In the meantime, the Government's efforts in May have succeeded in securing commitments for additional deliveries of at least 400,000 tons from various sources including Thailand, Burma, Japan and India. Much of this has been purchased on commercial terms but the Government expects to pay for it with concessional aid from OPEC countries. For the moment the problem through October will probably be one of managing the imports of large quantities of grain. Estimated arrivals from June through September already exceed normal handling capacities of Bangladesh's ports. Even if more foodgrain than is now scheduled to arrive is needed, it is unlikely that it could be handled. This was known when I met the Heads of Delegations last week. Further, the Japanese delegate at that meeting said that Japan had, and I quote, "millions of tons" of rice available for sale to Bangladesh on deferred payment, concessional terms. This took the steam out of the drive for an early meeting. I had suggested that in any case it would be difficult to have a meeting before September. The Government's response to this had been to suggest that that would not help in the immediate situation and that a review of the situation in January might be more appropriate, to discuss foodgrain availabilities through the end of next year's lean season. If Bangladesh gets through the present problem they may still face a difficult situation through June of 1980 because of the need to pay back some amounts to India and the need to build up stocks to a reasonable level at the end of the year. The Heads of Delegations agreed with this suggestion and it was arranged tentatively that we would meet in January. (The regular meeting of the Aid Group is scheduled for April.) However, the donors, and I would support them strongly, would expect the focus of such a meeting to be on Bangladesh's food security, including short-term food policies and a longer term food production plan. The Government may well prefer to avoid such a discussion.

8. On the subject of short-term policy issues, Mr. Picciotto in my absence and at my request sent a memo to Mr. Syeduz-Zaman which summarized some of the matters on which I feel that Government is delinquent in taking action. A copy is attached for your information. As for the longer term food production prospects, in our economic and sector work program we are making a substantial investment of staff time to assist the Government in drawing up a medium-term food production strategy. This work is underway, and the first draft report by Bank staff will be reviewed with Government officials in Dacca later this month by the staff concerned and Mr. Rowe, our Assistant Projects Director.

9. Levels of Program Lending to Bangladesh. You are familiar with our position. Mr. Muhith has been one of the strongest advocates of increased volumes of program lending for Bangladesh. As you know, this year our total program lending will be \$100 million, \$75 million in the imports program credit and \$25 million for the fertilizer imports credit. Next year, the level approved by you is \$75 million, \$50 million for the imports program credit and \$25 million for a second fertilizer credit. The import credit in FY81 will be \$50 million. As in recent years, we have made appraisal of the FY80 program credit conditional upon satisfactory progress in the action programs for the jute and textile industries under earlier programs credits. The main condition now outstanding for appraisal of the FY80 credit is submission by the Government of a detailed proposal for inter-mill transfers of equipment in the jute industry. Such transfers are the central element in any plan to rationalize the jute industry. We had scheduled a mission for May, and rescheduled it for June, but our latest information is that it may be the end of July before we receive the detailed proposal.

10. Second Fertilizer Production Plant. The possibility of our participating in the financing of a second fertilizer plant has been discussed for some time. Feasibility studies financed by the Asian Development Bank have been completed for a plant to be built at Chittagong. However, since the Chittagong site was selected, partly for export purposes, it has become apparent that by the time any second plant comes on stream Bangladesh will be able to absorb its entire production domestically. Consequently, both we and ADB have raised the question whether another site might be more economical. We recently fielded a joint mission to reassess the situation. The location of the plant also affects the size of a pipeline which the Government wishes to build from the Bakhrabad to Chittagong which they have asked IDA to finance. Our mission returned over the weekend and while it may conclude that the Chittagong site would be acceptable, they have not yet made a firm decision. I have just received a letter from Mr. Muhith requesting us to agree to finance a plant at Chittagong. If this question is raised I suggest that you say we will review their request in the light of the suggestions and findings of our mission.

attachment

DADunn:cgs

OFFICE MEMORANDUM

TO: Mr. M. Syeduz-Zaman, Alternate Executive Director DATE: May 29, 1979

FROM: Robert Picciotto, Acting Vice President, South Asia Region

SUBJECT: BANGLADESH - Food Situation

1. In your memorandum of May 14, 1979 to Mr. Hopper, you requested that we let you have in writing "a list of issues in the area of food policy reforms on which, in [our] opinion, understandings were reached between the Government and the donors in the Aid Group Meetings of January 1978 and January 1979, and issues on which it is considered that adequate action is yet to be taken (by the Government)..."

2. The attached table (Annex I) provides a summary of issues raised and understandings reached in those two Aid Group Meetings, as well as in the July 1978 Meeting. This table also refers to the set of recommendations set forth in the report entitled Bangladesh: Food Policy Review (Report No. 1764a - BD, dated December 12, 1977), which report established a framework for our dialogue on these issues over the past eighteen months. Several of these issues are a focus of negotiations currently underway between the GOB and IDA, USAID and the IMF; we hopefully anticipate an early and successful conclusion of these negotiations.

3. Among the principal issues of concern are the following:

(i) Establishment of a Food Policy Unit. It may well be argued that the present food situation might have been averted had there been established an adequately staffed and effective Food Policy Unit. The establishment of such a Unit was repeatedly recommended by the donors and agreed by GOB. We note that President Ziaur Rahman has very recently "reconstituted" a cabinet-level Council Committee on Food (with himself as Chairman) and has also established a secretarial-level Food Planning and Monitoring Unit. We believe, however, that the intended staffing of the latter unit (with "one or two economists") would be inadequate. Highest priority is warranted for the operation of a well-staffed Secretariat, reporting directly to the highest levels of Government, to: (i) monitor and project food production, prices, stocks, offtakes, procurement and imports year-round; (ii) devise an "early warning system;" (iii) analyze the food policy issues noted below and in Annex I; and (iv) advise the Government on needed policy reforms. Notwithstanding the reconstitution of the Council Committee on Food, there is continued evidence of inadequate coordination of food policy.

(ii) Procurement/Price Stabilization. Production incentives to farmers depend on there being an adequate price at which the Government guarantees procurement, and an early announcement of this price is required. Open-market sales (to even out price fluctuations) also depend on there being adequate domestic procurement as well as imports. As confirmed by last year's experience, there is a need for greater flexibility and more timely adjustment (including for inflation) in the Government's procurement and pricing policies. The recent increase in the boro procurement price to TK140 per maund cannot be deemed sufficient in these respects.

(iii) Ration Prices. These need to be raised at a faster rate than procurement prices, in order to reduce the heavy budgetary burden of food subsidies and to generate additional financial resources needed for developmental expenditure. The increase in ration prices announced earlier this month is clearly a step in the right direction. But these prices must continue to be adjusted upwards pari passu with rising procurement prices and increased charges for agricultural inputs.

(iv) Rations Rolls and the Wheat/Rice Mix. It has repeatedly been urged that higher-income groups be removed from the ration rolls. Little reform has occurred to date with respect to changing the ration rolls, particularly in terms of directing a greater proportion of ration distribution to the poor, both urban and rural. The Government has announced its intention to move towards an elimination of the rice ration. There is a need to accelerate the implementation of this policy. Rice should increasingly be used to stabilize prices through open-market operations.

(v) Irrigation Water Charges. The need to reduce irrigation subsidies and to rationalize the price structure for various modes of irrigation has been discussed between IDA and GOB for the past several years. To assist GOB in establishing appropriate pricing policies, IDA submitted to GOB in 1978 a "Report on Irrigation Water Charges" setting out specific recommendations for immediate implementation. But GOB has been slow to act. GOB's recent proposal to raise the rentals on low lift pumps reflects progress in this area. There remains a need, however, to accelerate the process of rationalizing water charges.

(vi) Fertilizer Subsidies. To reduce the heavy burden on the Government budget, fertilizer subsidies also need to be phased out. Past adjustments have been inadequate; price increases have barely kept pace with general price inflation. GOB's recent

proposal to increase the fertilizer price is a welcome step in the right direction. Notwithstanding this adjustment, the fertilizer subsidy remains very large and further adjustments will be needed to reduce the subsidy burden.

(vii) Private Sector Role in Import Distribution. To facilitate more efficient import distribution, to ensure that inputs are available to users when required and to reduce the administrative burden on BADC, increased reliance needs to be placed on the private sector. Some steps have already been taken in this regard (e.g. fertilizer distribution in the Chittagong Division), apparently with good results. Further expansion appears warranted, particularly as regards the sale and maintenance programs for irrigation pumps and tubewells.

(viii) Efficient Use of Pumps and Tubewells. The severe under-utilization of BADC-supplied irrigation equipment and tubewells is well-known. Food production has suffered because of long and unnecessary delays in procuring this equipment, including that available under IDA credits. It is estimated that increases of as much as 30-50% in irrigated areas could be achieved without much additional investment. Institutional constraints to better utilization, of course, should not be underestimated. Still greater attention to command area development, group formation and management, and improvements in input supplies (e.g. spares and diesel) and repair services should pay rich dividends.

(ix) WDB's Investment Portfolio. The recent joint review by WDB and IDA provides a useful background for reorienting the WDB's investment portfolio towards low cost, short-gestation irrigation, drainage and flood control projects. The reorientation now needs to be reflected in the future work program of WDB.

4. A number of understandings concerning food distribution and production policies have also been reached between IDA and GOB in the context of IDA credit covenants. Annex II provides a summary of the status of GOB's implementation of covenants in a number of agricultural sector projects.

Attachments (2)

cc: Messrs. Hopper (o/r), Wiehen (o/r), Rajagopalan, Rowe,
Waide, Dunn, Jansen

RArmstrong/JDrew/PGarg/RHarma/VThomas;phb

R = IDA/AID Group Recommendations A = GOB Agreements

| RECOMMENDED MEASURES | FOOD POLICY REVIEW | JANUARY 1978 | | | JUNE 1978 | | | JANUARY 1979 | | | COMMENTS | REQUIRED ACTION |
|---|---|---------------|--|---------------------------------------|---------------|--|--|---------------|---|---|--|---|
| | | IDA/AID GROUP | GOB | GOB'S STATEMENT ON ACTION TAKEN | IDA/AID GROUP | GOB | GOB'S STATEMENT ON ACTION TAKEN | IDA/AID GROUP | GOB | GOB'S STATEMENT ON ACTION TAKEN | | |
| I. <u>FOOD POLICY COORDINATION</u> - Cabinet-level Committee | - | - | - | - | - | - | - | - | A | Reconstituted. | Committee Set-up. | - |
| - Secretariat to monitor and plan (short and long-term) imports, production, ration, o.m.s. and prices. | Secretariat with political backing to implement measures. | - | - | - | R | - | - | - | A | Initiated. | Not yet operational. | Full Secretariat (see attached memorandum.) |
| II. <u>PROCUREMENT/PRICE STABILIZATION</u> - Incentive price increase | R | R | - | - | R | - | - | - | - | - | Small price rises. | Set price at level adequate to provide production incentive and to enable sufficient procurement; the price should be announced prior to aman planting. |
| - purchase all offered at price (storage, finance, admin. permitting) | May exclude aus, | R | A | - | - | A | Rice price stable with record harvest (550,000 tons procured). | - | Wheat, rice procurement to continue all year. | Wheat procured for 1st time July-Oct. 1978. | Effective in FY78; failed in FY79. | Set price at level adequate to provide production incentive and to enable sufficient procurement; the price should be announced prior to aman planting. |
| - Improve procurement system | R | R | - | - | - | - | - | - | - | - | System improved. | Procurement too low to operate OMS in 1979. OMS should include rice. |
| Open market sales in lean period (30% variation) | Max. 20% variation. Monitoring needed. | R | A | July-Dec. '77 less than 20%. | - | 200,000 tons wheat to be available. | - | - | - | - | Procurement too low to operate OMS in 1979. OMS should include rice. | Set price at level adequate to provide production incentive and to enable sufficient procurement; the price should be announced prior to aman planting. |
| III. <u>RATIONS</u> Ration subsidy reduction | R | R | - | Jan. '78, subsidy reduced | R | Being reduced with elimination by 1985/6. | - | R | A | - | Increase not yet announced. | Ration price to rise at faster rate than procurement price. |
| - Reduce ration roll by eliminating better-off (MR & SR) | TK 600/m. limit; | R | To exclude over TK 1600/m. | - | - | Rich to be issue stat. excluded ration books in FY79. restricted somewhat. | - | - | A | - | Little progress. | Lower income threshold. |
| - Wheat/rice mix | Eliminate rice ration in 2-3 years. | R | A | Already for some consumers 1:2 to 1:1 | - | - | - | - | Agreed to eliminate rice. | - | Some progress. | Eliminate rice. |
| - Eliminate rice imports | R | R | To change. Some progress. | - | - | - | - | - | - | - | Rice imports (incl. cash purch.) cont. | Eliminate rice imports. |
| - Expand programs for rural poor (food for work, etc.) | Encourage in deficit areas. | R | To extend MR and FFW Feeding Programs (women, children). | - | - | Expand FFW to 340,000 T. FY79. | FFW up 112,000 to 312,000 T. FY77 to 78. | - | A | - | Some progress. | Further expansion. |
| <u>PRODUCTION POLICIES</u> - Increase Irrigation Water Charges | R(*) | - | - | - | R | - | - | R | - | - | Little progress. | Increase rental rates pumps, tubewells; impose charges on gravity schemes. |
| - Increase fertilizer prices | R | R | - | - | R | A | Raised 7/1/78 | R | Eventual Elimination | - | Increase below inflation. | Further increases. |
| - Expand private sector role input distribution | R | R | - | - | R | A | - | R | - | - | Some progress. | - |
| - Increase utilization of pumps and tubewells | R | R | - | - | - | - | - | - | A | - | Little progress. | Need reliable supplies fuel, spares; assistance to coops. |
| - Reorient WDB's investment portfolio | R(**) | - | - | - | - | - | - | R | A | - | - | Reflect recommendations in future plans |

 * See "Bangladesh Irrigation Water Charges"
 (**) Joint Review of IDA/GOB

LIST OF MAJOR COVENANTS WHICH HAVE NOT BEEN MET UNDER
IDA/IBRD CREDITS/LOANS

A. Agriculture

| <u>Loan/Credit Number</u> | <u>Covenant</u> | <u>Status and Action</u> |
|--|---|--|
| <u>BANGLADESH</u> | | |
| Credit 340-BD Chandpur II | Section 3.04 of <u>Development Credit Agreement</u> By January 1, 1973 GOB was to start implementing a comprehensive program for maintenance and repair of project works and facilities. | The O&M program was prepared. Project is currently maintained out of capital budget. Project Director has requested adequate O&M Funds for next fiscal year. Resident Mission is following up. |
| | Section 3.09 of <u>Development Credit Agreement</u> By October 18, 1974 Government was to submit Plan for recovery of costs of operation and maintenance of civil works. | GOB passed legislation for collection of water charges but the rates have not been fixed. Next supervision will follow up ^{1/} . |
| Credit 341-BD Northwest Region Tubewells | Section 4.09 of the <u>Joint Financing Agreement</u> GOB to prepare and submit to IDA by January 31, 1973 a detailed agricultural development program for the project area to be agreed upon between GOB and IDA. | Plan not prepared and project agencies would need assistance in preparing such a plan. A follow-up project is being prepared by GOB/CP/IDA that will address the need for planned development of the command areas of project financed tubewells. Project preparation is underway. |
| | Section 4.14(b) of the <u>Joint Financing Agreement</u> GOB to prepare and submit to IDA, by November 6, 1977, a plan for providing for the recovery of as much as practicable of the capital | GOB has stated its intention to introduce on a nationwide basis cost recovery arrangements for beneficiaries of irrigation schemes. The issue |

1/ See also comments on Cr. 341-BD, below.

| <u>Loan/Credit Number</u> | <u>Covenants</u> | <u>Status and Action</u> |
|--|---|--|
| Credit 341-BD Northwest Region Tubewells (cont'd) | cost of the project, and shall consult with the Association as to the measures to be taken to give the effect to such plan. | has been discussed on numerous occasions at the highest level and will be raised again during the upcoming ADB annual meeting. GOB has been informed that IDA will not be able to finance additional irrigation projects until this issue is resolved. |
| Credit 410-BD Cereal Seeds | Section 4.05 of <u>Development Credit Agreement</u> Completion by 3/31/79 of reconstruction and improvement of Kaliganj-Jibanager-Chuadanga road to provide year-round access to Datannagar Farm. | Not yet completed but work is underway. Completion expected during 1979/80 dry season. |
| Credit 542-BD Barisal Irrigation | Section 3.10 of <u>Development Credit Agreement</u> By April 29, 1977 Government was to prepare proposals to recover project costs. | GOB passed legislation for collection of water charges but the rates have not been fixed. Next supervision will follow up ^{1/} . |
| Credit 605-BD Karnafuli Irrigation | Section 4.02 of <u>Development Credit Agreement</u> By January 28, 1978 Government was to submit operation and maintenance procedures. | No procedures were received although they have the capability to prepare this. Next supervision will follow up. |
| Credit 729-BD Extension and Research | Section 3.04 of <u>Development Credit Agreement</u> BADC to submit to IDA by October 1, 1977, its proposals for command area development of tubewells financed under Cr. 341-BD for approval. | See comments under Credit 341-BD. |

^{1/} See also comments on Credit 341-BD, above.

Loan/Credit NumberCovenantsStatus and Action

Credit 729-BD

Extension and Research
(cont'd)Section 3.15(b) of
Development Credit Agreement

Annual Research Program of seven substations and Bari Field Trial Division to be submitted to IDA by October 1, 1977.

Section 3.15(a) of
Development Credit Agreement

IDA to review medium term work plans to Rangpur and Bogra Resident Stations by October 1, 1977.

No action. A March 1979 supervision mission has proposed, and GOB has agreed, the appointment of an action-oriented manager as a Regional Director of Applied Research in the North west who would be responsible for this work. A new date for compliance will be set, following his appointment.

Credit 765-BD
Jute I

Section 3.02 of
Development Credit Agreement

Employ, by April 1, 1978, engineering consultants (or architects) with qualifications, experience, and terms of reference satisfactory to IDA to assist the borrower in preparing and supervising building programs included in the project.

Section 3.21(a) of
Development Credit Agreement

Appointment by March 1, 1978 in DAJ's Headquarters of an Administrative/Procurement Officer, and Finance/Accounts Officer and a Construction Engineer, in consultation with IDA on functions, responsibilities and qualification and experience.

March 1979 supervision mission reports that suitable firm has been selected and that contract negotiations are in progress.

Appointments made except for the Construction Engineer, for which recruitment in process. A March 1979 supervision mission recommended upgrading this post to facilitate recruitment and GOB has agreed.

Section 3.08 of
Development Credit Agreement

Appointment by DAJ, not later than July 1, 1978 of marketing specialist, with qualifications, experience and terms and conditions of employment satisfactory to IDA.

Candidate identified and recruitment being finalized. Expected to take up appointment within the next eight weeks.

Loan/Credit NumberCovenantsStatus and Action

Credit 787-BD
Second Foodgrain
Storage

Section 3.15 of
Development Credit Agreement

The borrower was to carry out
by October 31, 1978, review of
the field administration of
its Ministry of Food.

No action is considered
necessary, as completion of
this review is expected by
June 1979.

Section 3.19 of
Development Credit Agreement

The borrower was to carry out,
by October 31, 1978, review of
its administrative procedures
used to make payments for all
foodgrains domestically pro-
cured by its Ministry of Food.

No action is considered
necessary, as completion of
this review is expected by
June 1979.

OFFICE MEMORANDUM

TO: Memorandum for the Record

FROM: W. David Hopper, VP, South Asia *W.D.H.*

SUBJECT: BANGLADESH - Meeting with Dr. Fasihuddin Mahtab,
Minister for Planning

DATE: September 21, 1979

Mr. McNamara met with Dr. Mahtab on Tuesday, September 4, 1979
at 5.30 p.m.

Dr. Mahtab informed Mr. McNamara that Bangladesh had managed to ride through the consequences of a severe drought that had lowered domestic food production and reduced availability to a critically low level. He added that though the stock position was presently low, food aid arrivals were running ahead of offtake and the Government was overcoming many of its internal transportation problems. The monsoon this year has been fairly good after a slow start, and it looks as if the main crop, about to be harvested, has been reasonably good. There is the promise that the harvest and the Government's stock position will carry the nation satisfactorily through the dry season ahead.

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Dr. Mahtab went on to explain that the drought this year has emphasized the importance of agricultural development to the President and the Cabinet. He pointed out that at present only eight percent of Bangladesh's land is irrigated and it is planned that this percentage should rise to 25 or 30 percent under the new Five Year Plan now under preparation. The Minister mentioned that in a simulation study of the Northwestern Region of Bangladesh it was found upwards of 75 percent of the land could be irrigated from appropriately located and designed tubewells. To facilitate the expansion of irrigation, Bangladesh was turning to collaboration with the German firm of Deutsche for the manufacture of diesel engines within the country. Plans were also under way to use a machine tool factory for production of pumps and engines (as well as equipment needed by the jute and textile industries). The Minister pointed out that with an expansion of irrigation there will be a simultaneous need to meet a larger demand for agricultural inputs, such as, fertilizer, seed, extension services, credit, etc., and that the nation's ability to provide these inputs will depend very much on the building of a stronger, more comprehensive institutional base servicing agriculture.

The Minister then turned to the population question. He pointed out that Bangladesh's own projections are that population will reach 212 million people by the year 2005, a year when they expect the net reproduction rate to have fallen to 1.0. The Minister indicated that this was very much larger than they hoped. Indeed, it was hoped that Bangladesh could stabilize its population around 100 million. He expressed his concerns that population control had not been given the priority in the past that it should have received and pointed out that it was now "high time to tackle this problem". He commented that "the situation is grim, with more and more people unemployed, and with stagnant agricultural investment there is little chance for them to find work". The Minister pointed out that in the last few years

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there has been little investment in agriculture and that there "must be a break-through in the next 5 years or Bangladesh will not survive - it is simply a question of survival". The Minister went on to point out that the needs of the country are for the early development of its infrastructure. This meant irrigation, powered by electricity produced by using domestic gas resources; it meant also fertilizer and the manufacture and distribution of modern plant nutrients and plan production materials; in turn, this required the development of agricultural support industries and an extensive network of rural electrification. He stated that the Bangladesh marketable grain surplus is about 10 percent and that the transportation of this small proportion of domestic output (1.3 million tons) is even now a problem. If agricultural production is to increase, investments must be made in transport facilities, storage facilities, the production of assured inputs to farmers and the assurance of an economic incentive to farmers to encourage output growth. He pointed out that the Government's procurement program in the past had been focused on benefits accruing to urban consumers through cheap food, and that while this program has provided the nation and the farm community with some price stability, the price level to cultivators has not been high enough to provide the incentive to expand output. He indicated that Bangladesh would need at least another half million tons of high quality food storage to add to its present facilities of a little over one million tons.

Returning to irrigation, the Minister pointed out that crop intensity on irrigated land is close to the factor of 3.0, whereas on non-irrigated land it is about 1.5, but that the expansion of irrigation will depend very much on the availability of locally manufactured pumps and engines and spare parts.

The Minister turned from agriculture to a discussion of small scale industry where the GOB plans to promote the use of handlooms as soon as more industrial spinning facilities are available to provide the yarn for the weavers. He indicated that with the help of ILO and UNDP, a Human Resource Study is under way that is to complement an experimental project in the Comilla area where a T&V approach to small industry development extension is being undertaken. It is anticipated that this experiment will lead to a package program of price supports, of technology, of tools and other hardware, and of skill training that will be made available to small entrepreneurs to complement credit facilities now being extended by various Bangladesh institutions.

From small industry he turned to the need to build local leadership and to revitalize local institutions. He pointed out that little effort had been made for many years to encourage local planning and to assist the Union (a circle of about ten villages) and the Thana (a circle of about ten unions) Councils in undertaking local development programs.

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The Union and Thana Councils should be more effective in raising domestic resources, including resources in kind, for the planning and execution of local development. The Minister referred to resource constraints and promised that the GOB would do its best to increase the availability of local resources, but that there were limits because of the extent of the non-monetarization of the economy.

The Minister indicated that this was the thinking providing the foundation of the present approach to developing a second Five Year Plan. He asked for Bank help in both the planning process and in Plan implementation.

Mr. McNamara responded that he was delighted with the directions that the Minister indicated that the planning process in Bangladesh was taking. The President went on to point out the development of sound projects of the kind the Minister was referring to would justify an expansion of IDA assistance for Bangladesh. The President also pointed out that domestic resource constraints were a major problem that would have to be overcome soon if the Plan targets were to be met. Mr. McNamara also pointed out that he hoped the planning process in Bangladesh was not going to result in targets that were overly ambitious and incapable of attainment. He took the position that targets should be established that would put the nation under some stress as it reached for the projected goals, but that the targets should not be so far beyond attainment that national morale was made cynical or destroyed. The President also indicated the importance of developing in Bangladesh well prepared projects for submission to the Bank and other donors.

Minister Mahtab responded that Bangladesh was attempting to initiate its own project designs and he cited the Northwest Tubewells Project as an example of the Bangladesh conceived and prepared project. He pointed out that this project was now with the Bank for its consideration.

In closing, the Minister acknowledged that Bangladesh had not done an outstanding job in implementing projects. He said that Bangladesh would have to improve its implementation capacity in the years ahead, but he was sure this would be done. He pointed out that very frequently Bangladesh's projects were built around one conception, but that the donors had a different conception or point of view and the resulting project was an unhappy compromise that was difficult to bring to fruition. He hoped that this would not constrain project development and implementation in the future. He conceded that internal discipline within Bangladesh was the most needed aspect of their economic development implementation, and that this included discipline at the project site, as well as discipline between ministries and Government agencies involved in the project implementation.

The meeting adjourned at 6.30 p.m. with Mr. McNamara extending his good wishes to the Minister and to President Zia.

cc: Messrs. Wiehen, Dunn

WDHopper/vm

BANGLADESH - Briefing Paper

Mr. McNamara's Meeting with Dr. Fasihuddin
Mahtab, Minister For Planning, on Tuesday,
September 4, 1979 at 5:00 p.m.

Dr. Mahtab is passing through Washington en route from Ottawa, following his participation in a World Food Council meeting there. We understand that he will have met with the U.S. Secretary of Agriculture, Mr. R. Bergland, on Monday, September 3 and that he will have called upon USAID (Washington) earlier on the day of his visit with you.

Biographical Sketch

Dr. Mahtab, a mechanical engineer by training, served as Minister of State for Agriculture in the previous cabinet and subsequently as Deputy Advisor to the President. The portfolio of Minister For Planning, to which he was appointed in March 1979, was re-established at that time. Under the prior structure, Dr. Huda held the portfolios of both Planning and Finance; Dr. Huda continues to serve as Minister of Finance. Dr. Mahtab is reported to be quite close to President Ziaur, and we are hopefully presuming that his appointment reflects President Zia's concern to strengthen the Ministry of Planning, which has heretofore been gravely lacking in intellectual and managerial leadership. Before entering the Government, Dr. Mahtab ran an engineering and economic consultancy firm, was an active member of the Institute of Engineers, and did considerable work on rural development in cooperation with the Ford Foundation.

The Status of Planning - Background

The GOB is currently preparing both a Perspective Plan (1980-2000) and a Second Five Year Plan (SFYP) for the period FY1981-85. The SFYP is scheduled to become operational on July 1, 1980. The draft Plan is due to be published in March 1980. We are greatly concerned about the lack of progress achieved thus far in formulating both plans, and more importantly, about the disarray which continues to characterize the overall planning process. Among the principal factors accounting for our concern are the following:

(i) While the Government has adopted laudable overall objectives (employment creation, income distribution, population control, agricultural, self-reliance, etc.,) there has been very little detailed planning of how to achieve these objectives in the context of a coherent development strategy. In fact, both the Planning Commission and the Ministries lack this capacity, and the efforts of IDA and UNDP to help the government to build this capacity have not been successful. Some progress is being achieved, however, in a joint IDA/GOB effort to formulate a medium-term agricultural production plan. But the multiple objectives remain to be weighted and relative priorities remain to be established.

(ii) There has been very little real dialogue between the Planning Commission and the executing Ministries and agencies. The National Economic Council (NEC), headed by the President, issued overall guidelines for preparation of the

SFYP only in June 1979. The Ministries are expected to submit their sectoral plans by September 1979. This leaves very little time to realistically determine sectoral growth possibilities, strategies, and resource allocations.

(iii) The NEC guidelines set forth a number of targets (e.g. with respect to agricultural output, rural electrification, textile production, etc.) which are highly unrealistic (in the sense of being overly ambitious) in view of Bangladesh's likely resource availabilities and implementation capacities. (A major failing of the First Five Year Plan was the lack of realism concerning financial availabilities; there is a clear and present danger that history may repeat itself in this regard). Some of the guidelines also appear to be contradictory. Another possible cause for concern is the virtual omission in the guidelines of the need to accelerate progress in family planning.

Our next economic mission to Bangladesh will be in mid-September. That mission will, inter alia, aim to perform a "consciousness raising" function with respect to the above issues; it will also evaluate the consistency of the macro framework of the Plan and of the NEC targets. Mr. Hopper intends to visit Dacca during the latter part of September in order to raise these matters with the government at the highest level. The economic mission will prepare a report to be considered at a Consultative Group meeting scheduled for April 1980. A special interim meeting of the Group will also be convened in January 1980; that meeting will be focused explicitly on Bangladesh's food situation and on food policy issues. Our report for the January meeting will be prepared by a mission that will also visit Bangladesh beginning in mid-September 1979.

Resource Mobilization

The structural imbalance in the Bangladeshi economy is reflected by the fact that whereas the investment ratio (currently about 12-13% of GDP) has recently been restored to the preindependence level (having been depressed through most of the 1970's to considerably lower levels), the national savings rate is still only some 3% of GDP -- a resource gap of 9-10%. Foreign aid has comprised some 75-80% of public investment. In FY1979, disbursements of foreign aid totaled \$1 billion, comprising: (i) food aid, \$200 million; (ii) commodity aid and cash assistance, \$500 million; and (iii) project aid, \$300 million. In light of this extreme dependence on aid, therefore, it is evident that GOB's efforts to further raise its investment and growth rates will depend very largely upon its own efforts to improve domestic resource mobilization.

In the FY79 budget, about one-third of the development budget (called the Annual Development Programme, or ADP) comprised foreign aid disbursements to specific projects. Since aid covers on average only half of total project cost, an equivalent amount of budgetary resources is required to provide the local counterpart to the financing of aided projects, and relatively few resources--at present about one third of the total--are left over to finance all other development activities. As a result, the implementation of many projects, aided and non-aided, has been hampered by insufficient or tardy allocation of domestic funds.

The following table provides a summary picture of the government's public finances over the past two years and as projected in the FY80 budget:

Table 1

BANGLADESH: GOVERNMENT OPERATIONS FY77-FY80

(In Millions of Taka)

| | Revised Estimates 1977/78 | Budget 1978/79 | Revised Budget 1978/79 | Budget 1979/80 | Annual Growth Rates (%) | |
|--|---------------------------------|-------------------|------------------------------|-------------------|---|-------------------------------------|
| | | | | | Revised Est. FY78- Revised Budget FY79 | Revised Budget FY79- Budget FY80 |
| A. Total Revenue | 12,447 | 14,059 | 15,027 | 18,128 | 20.7 | 20.6 |
| Tax Revenue | (9,843) | (11,063) | (11,556) | (14,250) | (17.4) | (23.3) |
| Non-tax Revenue | (2,604) | (2,996) | (3,471) | (3,878) | (33.3) | (11.7) |
| B. Current Expenditure | 10,360 | 10,531 | 11,290 | 11,940 | 8.9 | 5.8 |
| C. <u>Current Surplus (A-B)</u> | <u>2,087</u> | <u>3,528</u> | <u>3,737</u> | <u>6,188</u> | <u>79.0</u> | <u>65.6</u> |
| D. Food Account Cash Surplus ^{1/} | 846 | 1,255 | 1,896 | 1,609 | 224.1 | -15.1 |
| E. <u>Current Surplus incl. net food account (C+D)</u> | <u>2,933</u> | <u>4,783</u> | <u>5,633</u> | <u>7,797</u> | <u>92.1</u> | <u>38.4</u> |
| F. Development Expenditure(ADP) ^{2/} | 12,029 | 13,900 | 16,026 | 20,700 | 33.2 | 29.1 |
| G. <u>Overall deficit (E-F)</u> | <u>-9,096</u> | <u>-9,117</u> | <u>-10,393</u> | <u>-12,903</u> | | |

It may be seen from the above data that both development expenditures and domestic resource mobilization increased considerably last year and are projected to increase this year by roughly the same orders of magnitude.

Not shown in the table are the increased disbursements of project aid, which rose by an estimated 35% in FY79 and is projected to rise by another 24% in FY80 -- reflecting some considerable improvement in absorptive capacity. Underlying the above indicated gains in resource mobilization -- achieved both through restraint on current expenditure and increased revenues -- are a number of measures taken by GOB which serve both to reduce the burden of subsidies and to rationalize allocation. These measures include: a 28% increase in fertilizer prices; a 20% increase in food ration prices; agreement to double rentals for low lift pumps (and to take steps to privatize distribution of pumps and fertilizer), and sizeable increases in water and other public utility rates.

With respect to the SFYP, the Minister is evidently envisaging a total development expenditure outlay of Taka 200 billion, in constant FY78 prices. This would represent an annual average outlay of Tk 40 billion, compared with the FY80 budgeted outlay of Tk 20 billion (in current prices). Whereas even such a great increase in development expenditure would not be sufficient to enable the government

to realize the NEC targets, it is doubtful that a program of this magnitude could be managed effectively. In any event, to the extent that GOB wishes to make a case for increased aid (including higher IDA allocations) to support such a program, it will have to demonstrate its capacity for generating and implementing suitable, well-prepared projects with its administrative capabilities. By the same token, a clear indication of both the Government's overall plan for increasing domestic resource mobilization and its commitment to reasonable targets could make a significant difference in convincing Aid Group members that the Government is doing all it reasonably can to mobilize resources, and that it deserves increased support. Upon our recommendation, the government appointed five resource mobilization committees and a Taxation Enquiry Commission in 1978. Although these agencies have completed their reports, GOB has not yet formulated such a realistic multi-year program. Moreover, the reports remain classified documents and have not yet been made available to us.

Issues That You Should Raise

Against this background, we suggest that you touch upon the following points with the Minister:

Handwritten: A. K. K. K. K.

(i) The Status of the Perspective and Second Five Year Plans

Our concern should be expressed in general terms, particularly with respect to the need to establish relative priorities among objectives as well as realistic (Albeit ambitious) and consistent targets. It may be useful to observe that our forthcoming economic mission is not a plan review mission (although we envisage such a mission in February 1980 when the draft Plan is available); rather it is a general economic mission which is intended to be helpful to GOB and to the Planning Ministry in particular with respect to making the SFYP as relevant and useful as possible to both GOB and external donors.

(ii) The Need to Further Improve Domestic Resource Mobilization

Particularly in view of the constraint to project implementation posed by the "Taka shortage" problem, both the Bank and other external donors are anxious to be apprised of the measures proposed by the Taxation Enquiry Commission and resource mobilization committees referred to in paragraph 5 above. The SFYP itself should provide a detailed program of fiscal measures (including subsidy reductions) and pricing adjustments projected over the plan period. As agricultural output increases over this period, the taka generated by food aid will decline correspondingly; at the same time, increased labor-intensive investments will call for much larger public savings.

(iii) The Need to Further Review Allocation Priorities and Procedures

Further progress is needed in weeding out uneconomic projects from the project pipeline in accordance with clearly specified criteria. The current "Taka shortage" situation is in part a reflection of too many projects bidding for a limited volume of resources. A new government will shortly launch a new Plan. History suggests that this may give rise to a propensity to try out more ideas and more projects than can be implemented effectively with the resources (managerial and administrative as well as financial) that are available.

Issues Likely to be Raised by Dr. Mahtab

Aid Requirements We understand that President Ziaur is fully committed to the adoption of overly ambitious targets for the SFYP, including that of doubling foodgrain output over the Plan period. A number of high ranking government officials are known to be skeptical about the prospects of achieving the Plan's stated objectives but are reluctant to express their misgivings for fear of courting the President's displeasure. In any event, realization of a total investment of Tk 200 billion (US\$12.9 billion) in constant 1978 prices would imply a massive mobilization of external aid as well as of domestic resources. With this in mind, it is understood that President Ziaur intends to address a letter to the Heads of States of major traditional and potential donors, including Mr. McNamara, pleading for increased foreign aid. Efforts by some Government officials to impress upon President Ziaur that the level of foreign aid envisaged may not be forthcoming (given the present aid climate) and that Bangladesh would not have the capacity to absorb such levels of investments are believed to have left him unconvinced. We do not know the extent to which Dr. Mahtab shares the President's views on the above issue. However, in view of his close relationship with President Ziaur, it is likely that he may raise that issue in an attempt to assess the Bank's likely reactions to President Ziaur's letter, in the event the President decides to send such a letter. If Dr. Mahtab raises this issue, we suggest that the Bank use the opportunity to support those GOB officials who have so far (unsuccessfully) tried to impress on the President the need for greater prudence in the preparation of the SFYP based on a careful selection of objectives that are realistically achievable.

Program Lending Dr. Mahtab is also likely to raise the question of increase in program lending to Bangladesh. For FY80 Bangladesh is scheduled to receive a program loan of \$50m, (reduced from \$75 million approved for previous years) and may receive a second fertilizer import credit of \$25m (dependent upon actual fertilizer offtake and fertilizer assistance available from other donors). We have been requested by the Government to restore the level of general program lending to Bangladesh in FY80 to, at least, that of the previous year (\$75 million) because of the continuing deterioration in Bangladesh's terms of trade resulting from the recent increase in oil prices and consequent increase in freight rates. In addition, during FY79 both commitments and disbursements of commodity assistance fell short of what had been recommended to the Bangladesh Aid Group. There is also likely to be a substantial shortfall in commodity assistance during FY80 from the target of around US\$650 million recommended by our last economic report which was prepared prior to the latest announced increase in OPEC petroleum prices. The desirability of an increase in Bangladesh's FY80 general program lending is currently under discussion within the Bank. (See Messrs. Wiehen and Hopper's memorandum to Mr. Stern of July 31, 1979 and August 16, 1979 respectively and Mr. Stern's response to Mr. Hopper in his memorandum of August 24, 1979 attached.) It is clear that the case for an increase in IDA program lending and our ability to persuade the Aid Group members to increase their program assistance would be strengthened by a clear statement of Government policies for (a) increasing domestic resource mobilization and (b) attacking the more basic structural imbalances

affecting Bangladesh's economy. The upcoming September economic mission will make relevant recommendations.

Bangladesh has also requested an increase in its total lending levels. We have for many years told the Government that our project lending was below what would otherwise be justified, due to problems in implementation capacity. There has indeed been some progress in project implementation as reflected by increases in project disbursements of 50% in FY78 and a further 50% in FY79. If project implementation continues to improve there will be a strong case to increase Bangladesh's share of IDA allocation for project lending in FY80 and in the later years.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
FROM: Ernest Stern, VP, Operations *ES*
SUBJECT: BANGLADESH - IDA Allocation

DATE: August 24, 1979

Please see the attached memorandum from Mr. Hopper and my response.

I have suggested he may want to raise it in a meeting with you. This will no doubt be a major point during your Belgrade meeting with the Bangladesh delegation, and it would be best to have our position understood clearly in advance.

Attachments
EStern/lms

OFFICE MEMORANDUM

I don't understand this.
How is \$15 million going to
help an increase of 10%?
What is ED going to do in
the longer run (1980)?

TO: Mr. Ernest Stern, VP, Operations

DATE: August 16, 1979

FROM: W. David Hopper, VP, South Asia *W.D.H.*SUBJECT: BANGLADESH: IDA Allocations

1. Further to your comments on Mr. Wiehen's memorandum of July 31, 1979, I would like to elaborate in some greater detail why the Region believes that the recently announced OPEC price increases for crude petroleum would place a major burden on the Bangladesh economy and justify a marginal increase in IDA allocations for FY80 along the lines already proposed.

Petroleum Imports: Percentage of Total Imports and Supplier Countries

2. During FY78, Bangladesh's imports of petroleum and petroleum products accounted for about 13% of its total import payments and amounted to US\$196 million on an actual payments basis (made up of a total import of crude oil of around US\$154 million and of imports of petroleum products of about US\$42 million).^{/1} During the same year, over 95% of Bangladesh's crude oil imports were derived from three main sources: the United Arab Emirates (mainly Abu Dhabi) accounting for around 53%, Iran supplying about 37%, and Kuwait accounting for an estimated 5%. Imports from Saudi Arabia amounted to slightly over 2%.

3. During FY79, the value of crude oil imports has been estimated at about US\$112 million and that of petroleum products at US\$60 million. Given the sharp reductions in Iranian production and exports, there was some change in the relative importance of the main supplier countries: Abu Dhabi supplied roughly 60% of the total, Saudi Arabia some 17%, Iran 13%, and Iraq 10%.^{/2}

Petroleum Prices

4. The following table summarizes the officially announced sales prices for the five countries which are Bangladesh's principal sources of crude petroleum imports.

^{/1} Primarily because of the time lag in bringing such payments into account, the customs figures for the same year were only US\$125 million for crude oil and US\$41 million for petroleum products, giving a total of US\$166 million or about 12% of total imports.

^{/2} Since these countries and Kuwait are likely to continue to be the major suppliers of Bangladesh's petroleum imports because of traditional and other reasons (e.g., shipping distance from the Gulf States are shortest and thus result in considerable savings in transportation costs), our analysis has been based on price quotations for these five countries.

Table 1: State Sales Prices for Crude Petroleum (Selected OPEC Countries)

(in US dollars per barrel)

| Date | Abu Dhabi | | Iran | | Iraq | Kuwait | Saudi Arabia | | |
|------------|-----------------------|---------------------------|-----------------------|----------------------------|------------------------|-----------------|-----------------------|------------------------|-----------------------|
| | Zakum 40 ^o | Umm Shaif 37 ^o | Light 34 ^o | Med. Heavy 31 ^o | Basrah 35 ^o | 31 ^o | Light 34 ^o | Medium 31 ^o | Heavy 27 ^o |
| 1 July 77 | 13.17 | 13.04 | 12.81 | 12.49 | 12.60 | 12.27 | 12.70 | 12.32 | 12.02 |
| 1 Apr. 78 | . | . | . | . | . | 12.22 * | . | . | . |
| 1 Jan. 79 | 14.01 | 13.78 | 13.45 | 13.06 | 13.29 | 12.83 | 13.335 | 12.89 | 12.51 |
| 15 Feb. 79 | 15.03 | 14.62 | . | . | . | 14.03 | . | . | . |
| 1 Mar. 79 | . | . | . | . | 14.49 | . | . | . | . |
| 1 Apr. 79 | 17.01 | 16.88 | 16.57 | 16.04 | 15.70 | 15.80 | 14.546 | 14.05 | 13.64 |
| 1 May 79 | . | . | . | . | 15.90 | . | . | . | . |
| 5 May 79 | . | . | . | . | 16.39 | . | . | . | . |
| 15 May 79 | . | . | 17.17 | 16.64 | . | 16.40 | . | . | . |
| 17 May 79 | 17.81 | 17.68 | . | . | . | . | . | . | . |
| 15 June 79 | . | . | 18.47 | 17.74 | 19.806 | . | . | . | . |
| 1 July 79 | 18.00 | .. | 21.22 | .. | . | 19.50 | 18.00 | .. | .. |

. = no price change enacted

.. = not available

* = a lifting discount of 5 cents per barrel was granted effective 1 April 1978 and US\$ 12.22/bbl became the official sales price on 1 October 1978.

Impact of Recent Petroleum Price Increases on Petroleum Import Costs

5. Given the share of crude petroleum and petroleum products imports in Bangladesh's total import payments, the recently announced increases in the prices of crude oil cannot but have a significant impact on the country's import payments for FY80 and also for subsequent years. While it is difficult to determine, at this stage, the full implications of the recent OPEC price increases for the Bangladesh economy as a whole, we have, nevertheless, summarized some of the direct and secondary impacts of such increases as far as currently available data permit.

6. To convert barrels into tons, we have used an average equivalency factor of 7.4 barrels per metric ton.^{/1} On this basis we have estimated the average export prices f.o.b. for Bangladesh crude oil imports to be as follows: ^{/2}

| | | | |
|------|-----------------|----|---------------|
| FY78 | 12.90 US\$/bbl. | or | 95.5 US\$/ton |
| FY79 | 14.10 " " | | 104.3 " " |
| FY80 | 19.60 " " | | 145.1 " " |

7. In addition to the export prices f.o.b., we have estimated the freight and insurance components of Bangladesh import prices c.i.f. (using information from the official customs statistics for FY78 and the Tanker Freight Rate Schedules as calculated by the London Tanker Brokers): These amount to an estimated US\$12.5 per ton in FY78, US\$16.6 per ton in FY79, and

^{/1} The actual conversion figures for the relevant grades of crude are as follows:

| <u>Crude Degree AP1</u> | <u>Specific Gravity</u> | <u>bbl/metric ton</u> | <u>bbl/long ton</u> |
|-------------------------|-------------------------|-----------------------|---------------------|
| 27° | 0.893 | 7.06 | 7.18 |
| 31° | 0.871 | 7.24 | 7.36 |
| 34° | 0.855 | 7.37 | 7.49 |
| 35° | 0.850 | 7.42 | 7.54 |
| 37° | 0.840 | 7.51 | 7.63 |
| 40° | 0.825 | 7.64 | 7.76 |

(approximate at 15.6° Celsius)

^{/2} The price for FY80 is based on the assumption that a further price increase averaging 10% will be enacted effective 1 January 1980.

US\$20 per ton in FY80. Adding these estimates to the estimated f.o.b. export prices, the c.i.f. import prices would be as follows:

| | |
|------|-------------|
| FY78 | US\$108/ton |
| FY79 | US\$121/ton |
| FY80 | US\$165/ton |

8. Given the actual and targeted import quantities of crude oil for FY79-FY80 and these estimated import prices, the value of crude oil imports is as follows:

| Year | Volume ('000 tons) | Price (US\$/ton) | Value (Million US\$) |
|--------------------------|--------------------|------------------|----------------------|
| FY78 | 1,155 | 108 | 124.7 |
| FY79 | 1,040 | 121 | 125.8 |
| FY80 | 1,380 | 165 | 227.7 |
| (FY80 at FY79 prices) | (1,380) | (121) | (167.0) |

9. Based on the same general methodology, the estimated value of petroleum products imports is given below:

| Year | Volume ('000 tons) | Price (US\$/ton) | Value (Million US\$) |
|--------------------------|--------------------|-------------------|----------------------|
| FY78 | 323 | 126 | 40.7 |
| FY79 | 380 | 157 | 59.7 |
| FY80 | 510 | 236 ^{/1} | 120.4 |
| (FY80 at FY79 prices) | (510) | (157) | (80.1) |

10. Table 2 below summarizes the above price/cost increases on Bangladesh's import bill for the years stated:

Table 2: Import Cost Effects of Petroleum Price Increases

| | Crude Petroleum | | | Petroleum Products | | | Total |
|--------------------------|--------------------------|-------------------|--------------------|--------------------------|-------------------|--------------------|--------------------|
| | Quantity (('000 tons) | Price (\$/ton) | Value (Mil. \$) | Quantity (('000 tons) | Price (\$/ton) | Value (Mil. \$) | Value (Mil. \$) |
| A. In Current Prices: | | | | | | | |
| FY78 | 1,155 | 108 | 124.7 | 323 | 126 | 40.7 | 165.4 |
| FY79 | 1,040 | 121 | 125.8 | 380 | 157 | 59.7 | 185.5 |
| FY80 | 1,380 | 165 | 227.7 | 510 | 236 | 120.4 | 348.1 |
| B. In Prices of FY79: | | | | | | | |
| FY80 | 1,380 | 121 | 167.0 | 510 | 157 | 80.1 | 247.1 |
| C. In Prices of FY80: | | | | | | | |
| FY79 | 1,040 | 165 | 171.6 | 380 | 236 | 89.7 | 261.3 |

^{/1} In its BOP projections in support of the recent Standby Agreement approved in July 1979, the IMF estimated 27% higher import prices for petroleum products in FY80 than the estimates used in this analysis, while the GOB is anticipating products prices to be some 16% higher than estimated here.

11. As shown in the above table, the anticipated import price increase for crude oil in FY80 will increase Bangladesh's import bill by about US\$60.7 million, while the expected price increase for petroleum products will add a further US\$40.3 million over the import cost of the targeted quantities at average FY79 c.i.f. import prices. The overall increase of US\$101.0 million corresponds to a 41% increase in payments for petroleum imports in FY80 due to oil price increases, which is equivalent to an increase of about 4.2% in Bangladesh's total projected merchandise imports payments for FY80 of US\$2.4 billion.

Effect of Increased Petroleum Prices on Transport Costs for Other Merchandise Imports

12. The recent OPEC price increases will also have a number of significant secondary and indirect consequences for Bangladesh's trade balance (e.g., resulting in cost increases for petrochemicals, synthetic fibres, energy-intensive manufactured goods, etc.). A brief analysis of the estimated effects of the increased petroleum prices on transport costs for merchandise imports will illustrate the magnitude of one such secondary consequence for the Bangladesh economy.

13. In FY77, insurance and freight charges on Bangladesh's merchandise imports were estimated to amount to 10% of total import payments. Consequently, any significant increase in freight charges is likely to have a major impact on the country's overall import bill. One indication of rising shipping costs is given by the Tanker Freight Rate Schedule (AFRA): the general purpose AFRA index rose by over 62% from June 1978 to April 1979. Similarly, the price of marine fuel oil in Singapore has increased from US\$83.75 at the end of July 1978 to US\$120 in June 1979, an increase of over 43% in 12 months. It is estimated, therefore, that ocean shipping costs in FY79 were about 10% higher than in FY78 and may rise as high as 50% over FY78 levels in FY80.

14. Since freight and insurance charges probably amounted to about 10% of the total merchandise import bill in FY78, this percentage probably increased to 11.3 in FY79 and is likely to rise to around 13.2% in FY80. Consequently, assuming an overall total import bill of about US\$2,425 million in FY80, freight charges in FY80 would amount to around US\$320 million. Compared to US\$269 million had freight charges remained at FY79 levels, this would represent a direct increase of US\$51 million directly attributable to increases in petroleum prices. Of this amount, about US\$4.7 million has already been accounted for in the cost of transporting crude oil and a further US\$2.0 million in increased transport costs for petroleum products. This leaves US\$44 million in additional shipping costs for Bangladesh's non-oil imports, projected to rise solely as the result of likely increases in ocean shipping charges.

Summary

15. In the light of the above analysis, it may be concluded that, given the combined effect of the increased cost of crude oil and petroleum products imports and of higher shipping costs for all other merchandise imports,

Bangladesh's import payments in FY80 for the imports discussed in this memorandum are likely to increase by an estimated US\$145 million. Of this total, US\$56 million will be due to the higher cost of crude oil; US\$38 million would be as a result of the increased cost of petroleum products; US\$4.7 million would be attributable to increased tanker freight charges for imports of crude oil with a further US\$2.0 million in respect of petroleum products imports; and US\$44 million would be due to increased ocean shipping charges for non-oil imports. Furthermore, available data indicate that, despite projected increases in the value of Bangladesh's total exports from FY79 to FY80, this value (in absolute and relative terms) will still be below the increase in value of only petroleum products and ocean freight charges./1

Commodity Assistance

16. I would also like to refer briefly to Bangladesh's continuing need for commodity aid with particular reference to the prospects for such assistance in FY80. During FY79, both commitments and disbursements fell far short of what had been recommended to the Bangladesh Aid Group. Partly as a consequence, imports under the official import program, which had been expected to rise by about 20% to allow for substantial increase in imports of raw materials and spare parts in continuation of the liberal import policy adopted in FY78, now appear to have increased by only about half that rate. Our last economic report recommended commodity aid commitments for FY80 of around US\$650 million to facilitate a projected disbursement of about US\$580 million./2 It appears that there will again be a shortfall on that account, notwithstanding the fact that our projections were made prior to the latest announced increases in OPEC petroleum prices.

Recommendation

17. In the light of the foregoing, I would request an early reconsideration of the Region's recommendations made in paragraph 9 of Mr. Wiehen's memorandum of July 31, 1979, and that an increase in IDA allocations to Bangladesh by at least US\$25 million to US\$30 million over the original allocation for FY80 be approved. This would amount to a total allocation for that year of at least US\$225 million.

/1 Recent projections for FY80 show an increase in value of total exports of about US\$120 million over the FY79 level. This compares with a projected increase of US\$145 million for only petroleum imports and ocean freight charges for the same time period. Of course, as other imports are included, this difference will be even greater. In addition, the Commodity Division's recent projections for world market jute prices (which accounts for about 75% of Bangladesh's exports) show that these will increase about 11% from FY79 to FY80; this compares with an increase of about 40% for crude petroleum for the same period of time. Therefore, in the short run the increase in Bangladesh's petroleum and freight import bills will be greater than "optimistic" projections of Bangladesh's export revenues.

/2 In support of its July 1979 Standby Agreement, the IMF projected total import requirements would increase by 44% in FY80--projections which also do not fully account for the recent OPEC increases.

18. I may add that the consequences of a denial of the above request could pose major and critical problems for the Bangladesh economy in FY80. As of June 30, 1979 Bangladesh's total external reserves amounted to US\$360 million. An increase in import payments of US\$145 million in FY80 represents about 40% of Bangladesh's total external reserves which, even after accounting for the recently approved Standby of SDR 85 million, are projected to decline in FY80 to less than the equivalent of two months' imports. Moreover, whatever assumptions one makes about petroleum prices beyond FY80, it is fairly obvious that the future growth of the economy will necessitate an increasing volume of petroleum and petroleum products imports which, even at FY80 prices, will continue to place a burden on Bangladesh's balance of payments.

19. Finally, the Bank's upcoming Economic and Food Policy missions, which are scheduled to visit Bangladesh in September/October of this year, will represent part of the Region's continuing and broad policy dialogue with the GOB. Approval of the above request would be helpful in enabling the Government to focus more readily on longer-term development issues and policies. In addition, approval of the Region's request would strengthen and facilitate considerably the Region's position in its efforts to reach agreement with the GOB on the measures required to effectively address such issues.

cc: Messrs. Wiehen o/r, Picciotto, Rowe, Jansen, Slade, Shibusawa
Dunn o/r, Armstrong o/r

PTaylor-Lewis/GSchreiber/RAnson:pn

OFFICE MEMORANDUM

TO: Mr. W. David Hopper, VP, South Asia
FROM: Ernest Stern, VP, Operations *ES*
SUBJECT: BANGLADESH - IDA Allocations

DATE: August 24, 1979

1. There is no doubt that Bangladesh, like every other low-income, primary commodity exporting and oil importing country, will be affected adversely by a further deterioration in its terms of trade. The increase in oil prices is a major cause but, no doubt, costs of other imports will rise too in 1980 due to a number of other factors. The increase in the current account deficit of this group of countries in 1980 is likely to be more than US\$1 billion. Regrettably, IDA resources do not have the same elasticity in the short run.

2. Moreover, while your recommendation (Paragraph 17) is for an increase in the IDA allocation for Bangladesh, the thrust of the analysis is to justify an increase in program lending. This is not the same thing - an increase in program lending could quite easily be accommodated within the present allocation (e.g., the gas project could be done in July 1980 instead of June).

3. The basic question, it seems to me, is whether it is desirable to raise the level of program lending to Bangladesh to \$100 million in FY80. (At present the program loan is scheduled for \$50 million and a follow-up fertilizer import credit for \$25 million.) There is no doubt about the increase in the import bill, but whether this justifies an increase in our program lending level is less clear. First, it is hard to see how \$25 million will be the major determinant of policy you suggest. The increase in payments is \$145 million; the drawdown of reserves, even with the \$25 million increase, would still amount to 33% of the total (instead of 40%) and would still leave Bangladesh with only the equivalent of two months imports. Second, the \$25 million will be less than the shortfall in commodity aid from the Consortium even before the oil price increase. Without international support for the analysis and conclusions you advance, our increase is unlikely to help in any basic way. Third, Bangladesh faces a major structural, long-term problem. Unfortunately, 1980 will not be unique. How are future years to be dealt with? A quick dollop of extra program assistance in 1980 will not help much.

4. I mention these issues against the background of our previous discussions and decision on phasing down program lending to Bangladesh. The reasons for that were the absence of a program to support, including a set of policies which will begin to address the basic imbalance in the external accounts, and continued poor management of development programs. There has been some progress (in project implementation and in fertilizer policy) but not very much. Having taken the first step last year in reducing general purpose lending for balance of payments support, and since the basic situation has not changed, I see little to be gained by reversing ourselves.

Mr. Hopper

- 2 -

August 24, 1979

5. These comments do not bear on a request to increase the IDA allocation for Bangladesh for additional project lending in FY80. Depending on the amount, and on other developments, we might be able to accommodate such a request later in the year.

6. Should you wish, I would be glad to meet with you and Mr. McNamara to discuss this matter further, after he returns from vacation.

EStern/lis

Mr. Ernest Stern, VPO

July 31, 1979

THROUGH: Mr. W. David Hopper, VP, South Asia
Michael H. Wiehen, Director, ASA

BANGLADESH: IDA Allocations

1. I refer to Mr. Syeduz-Zaman's memorandum of July 13, 1979 to Mr. McNamara on this subject. Before preparing a reply for you or Mr. McNamara to make to Syeduz-Zaman, I would like to comment on some of the points raised by him and make some recommendations for the level of IDA lending to Bangladesh in FY80 and beyond.

2. Background. Syeduz-Zaman is correct in stating that Bangladesh received 10% of the total available funds under IDA IV (\$459 million out of \$4.5 billion). In IDA V, however, this share has been reduced. We made credits for \$140 million in FY78 and \$271 million in FY79. \$196 million remained for FY80 under the current approved allocation. before the overall reduction prescribed by your memorandum of July 9, 1979. At \$196 million this year total lending to Bangladesh would be \$607 million for IDA V; in an across the board reduction, Bangladesh's allocation would have to go down by about \$20 million. The original DPS recommendation under their guidelines was for Bangladesh to receive \$820 million out of \$8.2 billion. Now that the total is \$8.9 billion, application of the DPS guidelines would presumably result in an allocation of \$890 million.

3. Under IDA VI, the current approved allocation for Bangladesh is \$961 million whereas the DPS guidelines would result in an allocation of about \$1.2 billion. As you know, up to now the Region has recommended lower amounts than the guidelines would indicate because we felt that there was an absorptive capacity constraint. I will address this issue below.

4. Aid Requirements. Without going into detail on the exact amount of commodity assistance which Bangladesh will need in FY80 and beyond, it is easy to see that their requirements of this kind of assistance are liable to be quite large, and greater than in the past, for this year and some years to come. In FY80, there will be an extra large food import bill. Over the next few years rising petroleum prices will cause large increases in POL and fertilizer import costs. If there is to be a minimum acceptable rate of growth for industry and GDP, the value of imports of the types of commodities we traditionally finance under our program credits must also increase.

5. Against this picture of rising needs it is hard to see how Bangladesh can by its own efforts increase resources in a commensurate fashion to pay these bills. On the export side, while we are working with the Government to build up a good program, it will be some time before we can expect significant results. There is a good chance that

stock carryovers will make up for the reduced jute crop in FY80, so that the value of jute exports (at least jute manufactures) may not fall, but there will be no significant increases and it would be prudent to plan for some decline in revenues from this source. On the food and fertilizer side, it would seem that sufficient aid will be available to meet needs. However, the prospects for commodity aid for other purposes are not at all bright. Bilateral lenders, like IDA, have tended to move away from this kind of lending over the last few years. Even if this trend is reversed the need for IDA program lending is liable to be greater rather than lesser in the future.

6. Project Performance. There is some ground for optimism in the disbursement picture. Total disbursement as a percentage of the pipeline at the beginning of the year fell from 55% in FY76 to 30% in FY77 and 27% in FY78 but rose again to 41% in FY79. (This FY79 figure differs from Syeduz-Zaman's, which was provided by the Region, but which was an estimate based on the first nine months of the year.) When program lending is taken out, disbursement on projects as a percentage of the pipeline at the beginning of the year was 29% in FY76, 19% in FY77, 13% in FY78 and 19% in FY79. This stable disbursement rate of about 20% p.a. is not a bad record for the last three years.

7. On the project pipeline side, FY79 turned out to be a good year in the end. Total IDA lending of \$271 million included the program credit, the fertilizer imports credit and the Ashuganj supplementary credit; excluding those, the FY79 total was \$142 million for seven projects. Of course, there was bunching - four of these projects were in the last quarter, and even this achievement reflected a great deal of extra hard work by our staff. For FY80, excluding program lending, the operations program contains 11 possible projects for roughly \$275 million. With more hard work (and probably still with bunching) we may get seven of these to the Board for a total of about \$175 million.

8. There is some evidence that the absorptive capacity constraint is easing. In addition, we have made considerable progress recently in our discussions about the operations of the Water Board and BADC, the two principal agencies in the agricultural sector. The joint report on the Water Board reflects a useful degree of agreement on the investment program and the way WDB will deal with it. With respect to BADC, both the Government and BADC seem to be genuinely committed to reducing the scope of the corporation's activities and devolving many of these on the private sector. This should improve prospects for the success of projects in BADC's sphere of activities.

9. Recommendation. Consequently, I think we should increase Bangladesh's FY80 allocation by at least \$25 to \$30 million over the original allocation; that is, to at least \$225 million. I should point out that this means an increase of \$50 million for the Region because of the \$175 million figure which would result for Bangladesh from a pro rata distribution of the new regional total given under the latest recalculation of the amount available in IDA V. We would not be able to absorb any increase for Bangladesh in

the allocations for Pakistan, Sri Lanka, Burma and Nepal, and of course, India's 40% share is sacred. In other words, I recommend that you increase the South Asia allocation for FY80 by \$50 million so that we can lend \$225 million to Bangladesh. I also recommend that we increase the amount of the FY80 program credit to \$75 million, for the reasons given above. Bangladesh's commodity aid situation was helped in FY79 by the \$45 million EEC Special Action Credit for program lending. Since there will be no EEC money available in FY80 it is all the more important that we maintain the IDA total of at least \$100 million (\$75 million for the program credit and \$25 million for the second fertilizer import program credit).

10. As for FY81 and IDA VI, it is clear that we should eventually agree on an allocation much nearer the DPS guidelines. We will be making a recommendation on this matter in the next CPP. In the meantime, I recommend a small increase for FY81 over the current - unreduced - allocation to a total of \$330 million which would imply an increase in the total South Asia allocation by about \$60 million. This increase will probably also need to be allocated to program lending.

11. If you agree I will prepare a draft reply to Mr. Syeduz-Zaman.

DADunn:c

OFFICE MEMORANDUM

TO: Memorandum for the Record

FROM: Michael H. Wiehen, Director, ASA *MH*

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

DATE: October 15, 1979

1. The head of the Bangladesh Delegation, Minister of State for Finance and Governor of the Bank for Bangladesh, Attuaddin Khan, called on Mr. McNamara on October 2, accompanied by Messrs. Muhith, Razzaque, Syeduzzaman and the Bangladesh Ambassador in Belgrade. Also present were Messrs. Stern, Hopper, Koch-Weser and Wiehen.
2. Mr. McNamara started by thanking the Bangladesh Government for voting for the GCI at an early date.
3. He then asked the Minister what he could tell him about the country and its economy, particularly the status of food production. The Minister began by congratulating Mr. McNamara on his opening day address. He explained that his country had prepared a first 5-year Plan right after Independence but had been unable to achieve its goals. His Government was now preparing a new Plan, and he expressed his gratitude for the Bank's assistance in this process. The most important target of the new Plan was to double food production and to increase internal resource mobilization substantially.
4. Mr. McNamara said a doubling in five years would require an annual increase of 14%, which no country has ever done, and which was not likely to be achieved, but any increase in food production was so important that the Bank would welcome and support any investment program towards that end. He added that it was absolutely essential that Bangladesh increase its efforts at mobilizing more domestic savings, even though this required a reduction in domestic consumption, and offered again that the Bank would give any advice desired by the Government in this regard.
5. Regarding the levels of IDA lending, Mr. McNamara suggested that the IDA program could be expanded provided (i) existing commitments were carried out well and (ii) the project pipeline were strengthened. He said the Bank, through the Aid Group, was also putting pressure on other donors to increase their commitments to Bangladesh. However, he remarked that even in the IDA replenishment discussions Bangladesh was being cited as a bad example as regards the utilization of aid and therefore tremendous efforts had to go into improving that past record. In response to Mr. Syeduzzaman who thought that the project pipeline for FY80 and 81 was all right, Mr. McNamara said he hoped Mr. Syeduzzaman was correct, but that Bangladesh in general should prepare at least 50% more projects than they thought the Bank Group could finance, and thus put the pressure on us.
6. Mr. Muhith expanded further on the Plan target of doubled food production, admitting that it was extremely ambitious (the highest increase Bangladesh had yet achieved in any one year was 8%) but stating that the

Government had to try for it. Even if they achieved 20 million tons rather than the 26 million tons targeted, they would be pleased. On this Mr. McNamara commented that an overambitious target could easily lead to serious and costly imbalances in the investment program, e.g. storage capacity being built for 26 million tons while irrigation investments were geared to a production level of only 15 million tons, etc. Mr. Muhith acknowledged this danger but assured Mr. McNamara that his Government would continue to work closely with Bank Staff toward a total integrated investment program which would be adjusted on a five year rolling basis.

7. As regards mobilization of domestic resources, Mr. Muhith said that last year Bangladesh had mobilized internally 6% of the investment program, and that the target was to reach 20% in five years. In the last six months alone, the tax burden on a family earning 1000 Taka a month had been increased by 27%. All subsidies on food were to be eliminated by the end of the Plan.

8. As regards the project pipeline, Mr. Muhith said they were working hard on it, and he expressed his hope that Bangladesh would not be held back, due to shortage of IDA funds, if projects were ready for financing. He stated his dismay that the lending program in FY80 was scheduled to go down to \$175 million, from \$275 million in FY79. Mr. McNamara responded that he would favor a larger program in FY80, and asked Mr. Stern to "find the funds", provided sufficient projects are ready for financing.

9. Mr. Muhith also commented on project implementation performance and acknowledged that there were problems. However, he argued that Bangladesh was a new country and that, apart from those inherited from the previous Government, new projects were only 3 years old or younger. A disbursement percentage of 20% was low, and they were trying for 25%, but he thought some improvements were already visible, and Mr. McNamara agreed that there were.

10. Mr. Muhith further argued that despite strong efforts at accelerating disbursements his Government would have a net transfer problem in FY80 and 81 and he asked the Bank Group to assist with a higher level of program lending. He pointed at the recent IMF agreement with Bangladesh and suggested that that agreement merited additional program lending support. Mr. McNamara responded that an IMF agreement was a necessary but not the only element in a case for program lending, and that the absence of a comprehensive development program was a major problem. He said that, as he had stated in the Development Committee, the Bank would like to increase program lending in general but that there was resistance from Germany and Japan. Besides, the Articles of Agreement limited program lending to "exceptional circumstances", and he did not wish to see the whole Bank program for program lending endangered because of a disproportionately high level of such lending in Bangladesh.

11. At the conclusion of the meeting, the Minister, on behalf of the President of Bangladesh, extended an invitation to Mr. McNamara to visit Bangladesh again and expressed the hope that Mr. McNamara could come before the end of the year. Mr. McNamara thanked the Minister for the invitation and replied that he would gladly visit Bangladesh, though he would be unable to do so in the near future, due to other commitments.

cc: Messrs. Stern
Hopper
Picciotto
Koch-Weser
Storrrar
Bangladesh Division

MHWiehen:ad

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
FROM: W. David Hopper, VP, South Asia *WDH*
SUBJECT: Meeting with Ambassador of Bangladesh

DATE: January 7, 1980

You are scheduled to meet at 6 p.m. today with His Excellency Tabarak Husain, the Bangladeshi Ambassador to the U.S. (Biographical note attached). The purpose of the Ambassador's call is to present you with a letter from the President of Bangladesh. I attach a copy of the letter which will be given to you; it requires no comment. For your information, similar letters have been addressed to the Heads of State of major country aid donors. The letter to you requests an annual IDA commitment of \$600 million in support of Bangladesh's Second Five Year Plan (FY81-85) for which a total of US\$13-14 billion in commitments is sought. The annual commitment requested from Germany was \$500 million, and from the U.S., \$900 million. In addition, those two countries also were asked for increased and accelerated food aid this year and to make deposits of US\$100 million and US\$200 million respectively in the Bangladesh Bank. The U.S. was also asked to make a program loan of \$100 million this year.

attachments

DADunn:c

We are projecting about \$1500 for FY80-84. With better project availability we could do about \$2,000 million. FY80 is not likely to be much more than \$200-220, which means we could well be to \$500m. per year by the end of the period. But much depends on the GOB. Implementation is still weak; little progress in exports and much remains to be in agriculture. They are trying though and we should say we will support fully any realistic efforts to accelerate development. *ED*

I could stop in Bangh in April discuss further I want to build 6-7 projects from 1980-85

Copy of Bangladesh President's letter for
Mr.W.David Hopper Vice-President, World
Bank.



With the Compliments of

*The Embassy of the
People's Republic of Bangladesh
Washington, D. C.*

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



PRESIDENT
PEOPLE'S REPUBLIC OF BANGLADESH
Dacca

December 22, 1979

Dear Mr. President,

Please accept my sincerest greetings. Your developmental assistance to our country so far has been encouraging and meaningful. From July 1980 we are launching our Second Five Year Plan. The national objective during this plan period would be to harness the tremendous natural resources in our country in the shape of fertile alluvial land, abundant water, coal, limestone, natural gas, and above all, the vast human resource, which remained unexplored and unutilized. I believe, now is the time for exploring and utilising our resources which was not possible so far due to colonization for centuries. Our problems in every sector relate to over 85 million people, as against a few millions only in other countries. Due to our poor economic base we need to develop faster and the resource inputs needed are several times larger than what is being received at present and as compared to others; so that we are not overcome by the growing size of the total problems. It is in this spirit of conviction that I proceed to write the following.

2. Consequent to what I have mentioned at the end of last paragraph, restoration of democracy and political stability has placed the nation in a stronger position to effectively solve the problems of endemic poverty, chronic food shortage, widespread unemployment and overall structural issues. The fundamentals of our total economic development are as under :

- a. Family Planning and Population Control.
- b. Agriculture Reform to include doubling food production (this is practical and possible).
- c. Total Irrigation and Water Development.
- d. Optimum development of fishery and livestock.
- e. Rural Electrification and Energy Development.



PRESIDENT
PEOPLE'S REPUBLIC OF BANGLADESH
DACCA

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- f. Education Reform (to include Technical bias and literacy programme).
- g. Exploration, Development and Utilisation of mineral resources (Coal, Limestone, etc.).
- h. Further Exploration and Development of Gas.
- i. Exploration for Oil.
- j. Development of Transport System.
- k. Manpower Uplift Programmes.
- l. Administrative Reform (will ensure total development plan).

3. From July 1980, we are launching our **SECOND FIVE YEAR PLAN**. Our plan objectives are modest and conform to the action programme endorsed by UNCTAD-V for the least developed countries. Whereas, our private sector was virtually non-existent till 1976, we have now a growing private sector and hope to develop it to play a significant role for national development henceforth. We envisage a size of TWELVE AND A HALF BILLION U.S. DOLLAR (in 1978/79 prices) for the public sector in our Second Five Year Plan (1980—85). At the same time we are proceeding to raise adequate domestic resources by various measures to make the plan efforts practical and viable. But in view of continuing domestic resource constraints as explained earlier, we need substantial external resources to support the over-all import programme, sectoral development programme and local and recurrent cost of specific projects. We are projecting an aid disbursement to the tune of TEN BILLION U.S. DOLLARS during **SECOND FIVE YEAR PLAN**. This will warrant a commitment of the level of some THIRTEEN TO FOURTEEN BILLION U.S. DOLLARS. Thus, only a doubling of resource flow in real terms is envisaged in five years time. However, this will need review periodically for adjustment. And also the matter relating to **MULTIPLE YEAR PROGRAMME** may be considered.



PRESIDENT
PEOPLE'S REPUBLIC OF BANGLADESH
DACCA

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4. We deeply appreciate the encouragement and support received from your great organization to our programme. WE NEED AND ANTICIPATE AN ANNUAL COMMITMENT IN THE ORDER OF U.S. DOLLARS 600 MILLION from your organization to enable us to materialize our modest Second Five Year Plan.

5. In our situation, an adequate measure of food security is essential not only for steady economic development but also for ensuring basic conditions like social and political stability as explained earlier. Therefore, we have to build a reasonable CONSTANT FOOD STOCK IMMEDIATELY TO THE TUNE OF 1.5 MILLION TONS. Your support in food sector will help us to devote our full attention to the execution of the Second Five Year Plan.

6. Mr. President, we are aware that the task ahead of us is difficult, but we are confident that the development targets can be achieved within the time-frame. For this, we are re-organising our administrative system, creating public opinion, mobilising and organising the people politically and making them conscious of the task ahead. We alone, in a slow process as at now, cannot make it. We need active and liberal assistance WHICH WE ARE CONFIDENT WOULD BE FORTHCOMING. We need substantial increase in the volume of your assistance to us also in the form of local currency support. As we have duty to work hard to improve our own lot, so also the world has a duty to extend a liberal and a helpful hand to us to ensure us the basic HUMAN RIGHT to live with a positive purpose and human dignity which is the key to your philosophy.

7. I would request you to please give personal direction to concerned officials in your organization for special attention to and realisation of our development programmes in AGRICULTURE, OIL, GAS, MINERAL RESOURCES, DEVELOPMENT OF NUCLEAR ENERGY FOR ELECTRICITY, RURAL ELECTRIFICATION, POPULATION AND TRANSPORTATION sectors. For discussions with officials of your organisation, we

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PRESIDENT
PEOPLE'S REPUBLIC OF BANGLADESH
DACCA

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would be prepared to send a high level delegation at a convenient time of your choice.

8. Dear Mr. President, I have written this somewhat lengthy letter with full confidence in you and your great organisation in the hope that we shall be receiving increased economic assistance from you towards our Second Five Year Plan.

9. Please accept, Mr. President, the assurances of my highest consideration and personal esteem.

Warmest Regards.

His Excellency
Mr. Robert S. McNamara
President
World Bank
1818 H. Street, N.W.
Washington D.C.
U.S.A.

Yours Sincerely,

13/2/57

Bio-Data of

His Excellency Tabarak Husain
Ambassador of Bangladesh to the U.S.

Ambassador Husain was born on April 6, 1924 in Dacca, Bangladesh.

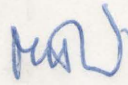
- Obtained a Master's Degree in Economics from the University of Dacca.
- Did post Graduate course in International Relations in the School of Economics, University of London, U.K.
- Joined career diplomatic service of Pakistan in October 1949.
- Served in Embassy diplomatic posts in New Delhi, The Hague, Bangkok and London.
- Appointed Director-General in the Pakistan Ministry of Foreign Affairs in March 1968 with rank of Ambassador.
- Appointed Foreign Secretary of Bangladesh in November 1975 (Permanent Head of the Ministry of Foreign Affairs).
- Represented Bangladesh in many international conferences including the Commonwealth Prime Ministers Conference and the U.N. General Assembly where he was deputy leader for 1976 and 1977.
- 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.
- Appointed Ambassador of Bangladesh to the United States in September 1978.
- Has wife and three sons.

January 7, 1980

OFFICE MEMORANDUM

TO: MEMORANDUM FOR THE RECORD

DATE: April 7, 1980

FROM: Michael H. Wiehen, Director, ASA SUBJECT: BANGLADESH - Mr. McNamara's meeting with Mr. Mohammad Saifur Rahman,
Minister of Commerce

1. Mr. Mohammad Saifur Rahman, Minister of Commerce, called on Mr. McNamara on Tuesday, March 25 at 6:30 p.m. He was accompanied by Bangladesh Ambassador Tabarak Husain and Mr. Abidur Rahman, Economic Minister, Bangladesh Embassy in Washington, D.C.
2. The Minister started by saying that the policies of the World Bank as they have been developed under the leadership of Mr. McNamara give hope to the people of Bangladesh. He welcomed the impending visit of Mr. McNamara to Bangladesh and stated that after the recent elections the political processes were now functioning well and the country was set to embark on a program of economic development. The highest priority objective will be to reach food self-sufficiency during the next 5-Year Period, and in fact the country intends to double food production over five years. He admitted that there were many skeptics who doubted the ability of the Government to achieve the doubling, but he said that the President and the Government were in the process of motivating the people of Bangladesh towards an even greater effort in order to achieve this objective. He said that substantially higher investment would be directed to irrigation, and that a lot of voluntary work would be organized toward the digging of canals. Wheat production this year was substantially higher than before, and with more seeds, could still be increased substantially in the future. In general, the agricultural development program needed a lot of input support.
3. The Minister said that the Bank was the principal agency to which Bangladesh looked for help. He acknowledged that, due to the democratic processes in his country, certain inefficiencies exist but he said that exogenous factors like last year's drought also had a major adverse effect. He mentioned that Bangladesh needed a lot of assistance for importing grain as well as to construct field reserve storage facilities for food grains.
4. The minister then spoke about the second Five-Year Plan, saying that the draft would be completed shortly. The major priorities would be food production, rural development and population planning. They had to succeed in all respects, but particularly with the population program, if the country is to survive. They are also working for greater coordination within the administration and are planning a major campaign to combat illiteracy. Bangladesh will need massive support from the international community, well above present levels; in fact, Bangladesh's program could not be achieved unless external inflows would double in

real terms. He acknowledged that in order to obtain such increases, his government needs to adjust many policies. He assured Mr. McNamara that these adjustments would be carried out and added that some were already under implementation. He referred specifically to the laws governing private foreign investment.

5. The Minister congratulated Mr. McNamara on his speech at the UNCTAD meeting in Manila and said Bangladesh was one of the very poorest countries that had to rely heavily on international support. He mentioned that over the last three years, export earnings had increased by 80%, and yet, due largely to the latest oil price increases, imports of only three major commodities, i.e. oil, cotton and cement, will eat up all export earnings.

6. Mr. McNamara responded that he was in full agreement with the government's priorities for the economic development of Bangladesh, and that he was looking forward to hearing much more about Bangladesh's problems and prospects during his forthcoming visit. He agreed with the Minister that the resource flows to the least developed countries would have to increase substantially, but he said the outlook was dark, due to the recession in the industrial countries and the slow increase in aid flows from the OPEC countries. As to increased Bank Group assistance to Bangladesh, he said he was anxious to see our commitment levels increase, and that he would take additional lending proposals to our Executive Directors, as soon as Bangladesh improves its performance, particularly in project preparation and implementation.

7. The Minister assured Mr. McNamara that Bangladesh will show better performance in the near future since a number of steps have been taken by the government to create a better political and economic environment. He said that the farmers were now motivated and would make full and effective use of whatever inputs and facilities will become available to them. It was for this reason that his government was working ceaselessly towards a better input supply system, including better seeds, irrigation water, fertilizer, pumps and tubewells, diesel fuel and credit. He said the government was also reviewing its price policies and would increase grain procurement prices further if this were needed to establish adequate incentives.

8. He thanked Mr. McNamara for receiving him and said that, with help from Mr. McNamara and the Bank Group, Bangladesh could achieve a substantial acceleration of its economic development.

cc: Messrs. Hopper
Picciotto
Koch-Weser
Storarr
Dunn

MHWiehen:ad

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
 (Through Mr. E. Stern, VPO)
 FROM: W. David Hopper, VP, South Asia *WDH*
 SUBJECT: BANGLADESH: Your Meeting with the Commerce Minister

DATE: March 24, 1980

3/25
 1. You are meeting Mr. Mohammad Saifur Rahman, the Bangladesh Minister of Commerce, at 6:30 p. m., Tuesday, March 25. Mr. Stern will meet the Minister at 11:30 a. m., Wednesday, March 26. Mr. Rahman will have opened a Bangladesh Trade Fair in New York the previous Sunday. He is a close friend and advisor of President Ziaur Rahman. Although we have no close dealings with his Ministry, he has been used on occasion as an emissary of the President to amplify the President's views. I went to Dacca in early February at the request of the Aid Group to convey some concern about the overly ambitious Second Five Year Plan targets, and especially about the levels of aid requested in the President's letters to heads of state. The President had by then received many replies (including yours) to his letters. Most of the replies were noncommittal, at best, and the President was disappointed. He told me that he intended to send personal envoys to all of the original recipients of his letters to seek more affirmative statements. Apparently, that is the purpose of Mr. Rahman's meeting with you. We are informed by the Embassy that the Minister wishes to discuss the Plan with you and to explain to you some of the "political necessities" which underlie the President's goals. Since my visit, Mr. Stern has been in Bangladesh, and once again reiterated that the Bank Group could increase its lending to Bangladesh if project implementation improved. Mr. Stern said that in such circumstances the level of \$600 million per annum requested by the President could be approached in the last year (FY85) of the GOB Second Five Year Plan, a figure you mentioned to Ambassador Husain when he delivered the letter, but which was omitted in your written reply to President Zia.

2. An official GOB descriptive biography of Mr. Rahman is attached, as is a copy of the President's letter to you, your reply, and the background note I sent you at the time. When the Aid Group met in Paris in January (on food aid and policy) a quick survey of heads of delegations revealed that the total aid commitment requested in the President's letters for the five years was over \$30 billion. The Plan draft is still not available but our latest information is that the targets are likely to be increased, if anything, beyond those indicated so far.

3. Finally, may I remind you that Wednesday, March 26, is Bangladesh Independence Day.

attachments

Cleared with & cc: Mr. Wiehen

DADunn:c

I am not sure how close the Minister is to the President. But he is quite cautious and ideological and, despite his private industry background, has few pragmatic ideas and has accomplished little.
3/24/80

The World Bank / Resident Mission in Bangladesh
222 New Eskaton Road
G.P.O. Box 97, Dacca, Bangladesh
Telephone : 400003-5, 402810, 402841
Cable Address : INTBAFRAD, Dacca

April 19, 1980

Dear Mr. President:

I would like to thank you again for your very kind invitation to visit Bangladesh, for the generous hospitality you have showed me on this visit and for the time you devoted out of your busy schedule to our... discussions, which I found very productive.

I would like to take this opportunity to repeat that the World Bank Group is eager to work with your Government to accelerate the economic development of Bangladesh. As we discussed, I would hope that if performance in economic management, in project preparation and in implementation improves, the level of Bank Group assistance would equal the US\$600 million you requested, in the last year of the Second Five Year Plan (i.e. FY85). We also discussed some of the measures which we believe are essential to such improved performance. I have summarized these in the attached Aide Memoire.

Thank you again for your warm welcome. I sincerely hope that in the coming years the results of your renewed personal effort will be seen in achievement of your objectives for progress in Bangladesh, and that the Bank Group will contribute increasingly to this.

Sincerely,

Robert S. McNamara

His Excellency
Ziaur Rahman
President of the People's Republic of Bangladesh
Dacca, BANGLADESH

Attachments

BANGLADESH
AIDE MEMOIRE

During the visit of Mr. McNamara, President of the World Bank Group, President Rahman and President McNamara discussed the programs designed to accelerate the economic development of Bangladesh and the conditions under which IDA lending to Bangladesh could be increased substantially to support this effort. Mr. McNamara supported the Government's approach of supplementing the Second Five-Year Plan (SFYP) targets, with realistic implementation plans prepared annually for the subsequent 2-3 years. In particular, the Government's expressed priorities for improved agricultural production, for primary education, and for population control should be reflected in the annual allocation of scarce investment and managerial resources.

Mr. McNamara said the World Bank Group was eager to work with Bangladesh towards the achievement of rapid economic growth and to expand its lending to support that objective. The Bank Group's ability to increase lending to Bangladesh would depend on broad improvements in economic performance and improved performance in project preparation and implementation. Among the measures which would be of particular importance in achieving Bangladesh's objectives and warranting increased Bank lending are those referred to below. While quantitative targets are important indicators, what would be more important in the Bank Group's assessment would be the underlying policy and organizational changes made by the Government.

I. ECONOMIC PERFORMANCE

A. Exports. The Government should continue to improve its export performance so as to gradually increase the share of the SFYP financed by Bangladesh's export earnings. Because exports of jute and jute goods are expected to grow relatively slowly, export diversification in the form of a more rapid expansion of "non-traditional" exports (i.e., other than jute and tea) is essential. An average annual growth rate in the volume of non-traditional exports of 8.5% should be feasible over the next few years. To achieve this, consideration should be given to expanded incentives for exporters, improved support services, and strengthening of private sector producers.

B. Resource Mobilization. The ambitious development targets imply improved domestic resource mobilization to enable the Government to meet its projected share of Plan financing.

1. The Government should adopt measures that would serve to raise current revenues from 8% of GDP (at market prices) in FY79 to at least 13% by FY85, while the share of current expenditures (excluding the jute and food subsidies) in GDP should increase very little, if at all --- as a result domestic savings should rise from slightly over 3% of GDP in 1979 to somewhat more than 7% in 1985.

2. Explicit targets should be established for reducing subsidies. For example, the unit subsidy on fertilizers, which is now about 40%, should be reduced by one-fifth annually so it could be eliminated by FY85. A target should be established for phasing out the food subsidy.
3. The findings and recommendations of the five resource committees should be consolidated into a time-phased action program for reducing subsidies and otherwise rationalizing public enterprise and utility pricing policies as part of a comprehensive fiscal strategy paper (a financing plan for the SFYP). The fiscal strategy paper should be completed by April 1, 1981.

C. Appropriate Investment Strategies. To achieve the growth objectives, investment strategies must be carefully designed to assure quick results at lowest costs and the number of new investments started must be consistent with a realistic assessment of resource availability to avoid the waste inherent in starting too many projects which cannot be completed on schedule.

1. Agriculture. The Medium-Term Food Production Plan developed jointly by GOB agencies and Bank staff should be treated as the hard core of the SFYP for agriculture, with cereal grain production rising from 13 million tons in 1979 to 18 to 20 million tons in 1985 under conditions of average rainfall. In irrigation, the Government should avoid new investments in multi-year, capital-intensive schemes and concentrate instead on minor irrigation activities, schemes that entail low unit costs and rapid returns, and the rehabilitation of the existing irrigation infrastructure.
 - a. Investment Allocation to Agriculture. The Government should reverse the decline of recent years in the proportion of total resources devoted to agriculture in the Annual Development Program (from 31% in FY75 to 22% in FY80). While it is understood that the overall economic development will require increased outlays in several other sectors of the economy as well, and that many other factors besides finance are important for agricultural development, the proportion of the ADP devoted to agriculture has been too low and should be raised. The Government should increase the allocation (including rural development and water resources development but net of the fertilizer subsidy and Food-for-Work activities) from 22% of the ADP in FY80 to about 30% by FY85, with major increases in real terms to come in FY81 and FY82.
 - b. Water Development Board. The Water Development Board (WDB) has begun to focus its efforts on and should continue to emphasize: ongoing aided projects; low unit cost new projects for which there are firm indications of external support;

and rehabilitation and expansion of existing schemes (ground-water and low-lift pumps in northern districts and the Ganges-Kobadak project). The allocation of funds for major irrigation projects and programs in the FY81 and FY82 budgets of WDB should be on the lines of the summary of WDB's Irrigation, Flood Control and Drainage Program as shown in Table A-3 (which is attached) of the Medium-Term Food Production Plan.

- c. Minor Irrigation. The Government should make a major push during the SFYP to double the area under irrigation. About 80% of the incremental irrigated area during the SFYP should come from minor irrigation (low-lift pumps, deep and shallow tubewells, hand tubewells). About half of the Government's total financial outlays for water resources development should be devoted to minor irrigation. Allocations for the imports of diesel fuel for irrigation pumps and spare parts of irrigation equipment should be raised to correspond to the increase in area served by diesel pump irrigation. To overcome delays in fuel delivery to the farmers, a study should be made to determine the need for bulk storage facilities for diesel fuel in the rural areas. As part of the Medium-Term Food Production Plan, Project Proformas have been drafted for each category of minor irrigation equipment. The FY81 and FY82 BADC Budget and Annual Import Program should provide for the budgetary allocation, procurement and import of minor irrigation equipment as set out in these Project Proformas and also for the import of diesel fuel and spare parts required for the full operation of all minor irrigation equipment. Efforts should continue to engage increasingly the private sector in this effort.

2. Population. The reduction of population growth remains a central objective. Every effort should be made to reach, and if possible exceed, the number of acceptors now planned -- the number of net acceptors should increase by at least 12% per year, rising from 14% of couples in reproductive ages in 1979 to 28% in 1985. Population control programs have been hampered by poor performance by field workers. Measures designed to improve staff discipline and organization were agreed during negotiations of the Second IDA Population Project. Progress in implementing them, and the civil works components in both Population Projects, should be kept to the agreed schedules. Another problem has been inadequate management. Senior posts which have been unfilled for long periods should be filled. Cooperation with the Health Department should be improved. It is essential that the best management talent be devoted to this sector, that it continue to have high level political support and that the personnel involved in the program be imbued with a greater sense of urgency in implementing the program effectively.

II. PROJECT PERFORMANCE

A. Development of a Plan Implementation Program. The two or three year "rolling" plan which would supplement the SFYP, should contain a financing plan (as mentioned above) and a proper monitoring component as well as a detailed investment plan. Such a document should be prepared by September 1, 1980, to be reviewed by a Bank mission in September/October to provide the basis for discussions of the SFYP at the next regular Aid Group meeting in May 1981.

B. Project Preparation and Implementation Capacity. The Government should strengthen its capability to: prepare projects and programs; monitor progress in implementation (with respect to agricultural progress, particular emphasis should be placed on monitoring receipt of required inputs); identify bottlenecks; formulate measures to overcome them; enlist the cooperation of relevant ministries and agencies of the Government in furthering implementation; and, at budget time, determine the level of appropriations needed for the implementation of each major project program.

1. Specifically, the Planning and Evaluation Cells in the ministries and agencies concerned with agriculture (Agriculture, Food, Flood Control, Local Government, BADC) should be strengthened by enlarging their responsibilities to include project preparation and implementation.
2. Expatriate advice for project generation and implementation will be necessary to increase absorptive capacity in the short run and the willingness to accept such assistance in the operational ministries will be necessary, if investment and growth objectives are to be met.

Date: April 19, 1980

BANGLADESH
FOOD PRODUCTION PLAN

Summary of WDB's Irrigation, Flood Control & Drainage Program

| Benefitted Area ('000 ac) | | | | Estimated cost during SFYP ^{1/} | | | | | |
|--|----------------------|-------------------|------|--|------|------|------|------|------|
| Benchmark (77/78) | Estimated (79/80) | Target (84/85) | | Total | FY81 | FY82 | FY83 | FY84 | FY85 |
| | | | | -----Tk M----- | | | | | |
| 1. DND | 13 | 10 | 10 | - | - | - | - | - | - |
| 2. Chandpur | 12 | 35 | 59 | - | - | - | - | - | - |
| 3. Buri - Teesta | 4 | 13 | 13 | - | - | - | - | - | - |
| 4. G.K. Phase I | 65 | 70 | 80 | 130 | - | 30 | 50 | 50 | - |
| 5. G.K. Phase II | 38 | 60 | 100 | 150 | 50 | 50 | 50 | - | - |
| 6. GWD, LLP in Northern district | 18 | 40 | 60 | 150 | 50 | 50 | 50 | - | - |
| 7. Barisal with Extension | 2 | 10 | 200 | 300 | 100 | 100 | 100 | - | - |
| 8. Barisal-Patuakhali | - | - | 120 | 400 | 30 | 40 | 100 | 110 | 120 |
| 9. Karnafuli | - | - | 35 | 120 | 60 | 60 | - | - | - |
| 10. Muhuri | - | - | 50 | 700 | 230 | 220 | 150 | 100 | - |
| 11. Manu River | - | - | 30 | 200 | 120 | 80 | - | - | - |
| 12. Meghna-Dhonagoda | - | - | 30 | 600 | 50 | 100 | 150 | 150 | 150 |
| 13. Fabna Phase-I | - | - | 70 | 1200 | 100 | 150 | 300 | 350 | 300 |
| 14. Tubewells Project (Northern Districts) | - | - | 147 | 500 | 50 | 100 | 150 | 100 | 100 |
| 15. Unidentified New Schemes for benefits after 84/85 ^{2/} | - | - | - | 1550 | 50 | 50 | 100 | 450 | 900 |
| Sub-Total: | 152 | 238 | 1000 | 6000 | 880 | 1040 | 1200 | 1310 | 1570 |

^{1/} Indicative estimates based on discussions with WDB's HQ staff and, in some cases, review of project documents. These may have to be refined considerably following discussions with the respective project staff.

^{2/} These could provide a pipeline of about 300,000 ac irrigation for completion beyond 84/85.

| | Benefitted Area ('000' ac) | | | Estimated cost during SFYP | | | | | |
|--|----------------------------|----------------------|-------------------|----------------------------|------|------|------|------|------|
| | Benchmark (77/78) | Estimated (79/80) | Target (84/85) | Total | FY81 | FY82 | FY83 | FY84 | FY85 |
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1/ These could provide a pipeline of about 400,000 D & FC for completion beyond 84/85.

2/ In addition, the proposed drainage and flood control works, will create potential for irrigation on 100-200,000 ac through pumps, tubewells or traditional methods.

OFFICE MEMORANDUM

TO: Files

DATE: April 25, 1980

FROM: John Schwartz, Operations Officer *JS*

SUBJECT: Mr. McNamara's visit to Bangladesh

1. Following is a report on Mr. McNamara's meetings with Government officials responsible for Power, Commerce, Energy and Jute. The meetings were attended by Messrs. Hopper and Storrar and Resident Mission staff.

Power

2. The Secretary of Power, Water Resources and Flood Control, Mr. S.A. Khair, stated that while Bangladesh had an installed capacity of about 900 MW, demand stood only at about 500 MW. Due to lack of maintenance and repair, service was frequently interrupted. While power stations on the eastern side of Bangladesh operated on natural gas, those on the western side, where no gas was yet available, were fuel driven, a reason why installed capacity on the western side was less because of higher operational costs. To help achieve a satisfactory economic growth, improved power supply was a necessity. During the Second Five Year Plan, priority would be given to a rehabilitation and maintenance program and only when this had been satisfactorily completed, capacity would be expanded. It was hoped that, through better capacity utilization, consumption could be doubled from 500 to about 1050 MW by 1985. In addition, a substantive training program was required to adequately staff power stations, engineering and design, and planning. The Secretary continued that the rural electrification network would be expanded during the SFYP, as this was a prerequisite for any development of the rural areas, in particular power supply for irrigation pumps to support the food production program.

3. In response to questions by Mr. McNamara, the Secretary replied that, apart from IDA, foreign assistance for the power sector was being secured from various sources, including UK, USAID, ADB, Arab funds and several others. USAID was financing a US\$50 million rural electrification project but additional financing for this sector was urgently needed. Mr. McNamara said that he would be prepared to support further IDA lending for the power sector, including rural electrification, and suggested to the Secretary to prepare a concrete proposal.

Commerce

4. The Minister of Commerce, Mr. Saifur Rahman, said that the import-export gap of Bangladesh was aggravated by the increased oil bill which was expected to total about US\$600 million in 1981. Bangladesh would continue to need substantial commodity assistance for lack of foreign exchange in order to maintain production levels, as otherwise domestic resource mobilization would become even more difficult.

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April 25, 1980

5. The Minister confirmed that in order to improve export performance the Government had taken several measures including the establishment of an Export Promotion Bureau which had successfully organized a recent trade fair in New York. Among others, orders totalling about US\$10.0 million for jute carpets had been obtained and exports of garments to EEC countries had grown considerably. More emphasis would be placed on non-traditional exports. Mr. McNamara inquired about the SFYP projections for increased exports of non-traditional items in real terms. The Minister expected about 38 percent expansion in real terms in this sector and added that while the present ratio of jute versus other exports was about 69:31, this ratio was likely to decline to about 50:50 by 1985. A special effort would be made to increase leather exports and to move to intermediate and finished leather products for higher value added.

6. Mr. McNamara considered the expected growth of non-traditional exports rather low and wondered whether the private sector could not be encouraged to play a more significant role in this respect. Asked about the volume of last year's private enterprise production, the Minister indicated that private investment in the manufacturing sector during 1978-79 had reached about US\$20 million. To encourage exports, import licences were granted on a priority basis to those exporters who had demonstrated good results with the foreign exchange the Government had allocated to them. Efforts were also made to guide the private sector to invest more in productive sectors instead of commerce and trade. Finally, the Minister said that Government took a much more liberal attitude towards the private sector than in the past, as was shown by its recent decision to transfer to the private sector the distribution of fertilizer and the manufacturing of pesticides and pumps.

7. Mr. McNamara felt that private investment was too limited and suggested (i) to increase private sector participation in exports, and (ii) to push non-traditional exports well above the 38 percent increase in real terms planned under the SFYP.

8. In a final statement the Minister of Commerce referred to the need for agreement among Nepal, India and Bangladesh concerning the utilization of water resources of the large delta rivers and asked for Mr. McNamara's support in this respect during his discussions with the Government of Nepal. Mr. McNamara said the Bank would be fully prepared to provide financial and technical assistance, should the three countries jointly approach the Bank.

Energy

9. The Minister of Petroleum, Lt. Col. (Retd.) Akbar Hossain said that because of the increasing oil bill, the use of natural gas, Bangladesh's only significant energy source, must be expanded as fast as possible. During the SFYP, gas use should be doubled. The Minister said that reserves of the gas fields discovered totalled about 20 billion cf. from 17 wells already drilled (this is opposed to a probably more realistic appraisal estimate by the recent Bakhrabad-Chittagong Project appraisal

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mission of 9 billion cf.). Plans have been made to drill 20 new wells over the next five years, and this drilling would be undertaken by the Government and by foreign contractors. The Minister indicated that even more assistance was needed both for seismic surveys and for drilling a further 20 wells.

10. The Minister stated that, in addition to power generation, gas would also be used in the production of steel, fertilizer, tea processing and others. Furthermore, export of gas to India (Calcutta) was being discussed. Mr. McNamara said that the World Bank was providing finance for seismic studies and exploration of hydrocarbons to several countries and that he would be pleased to support exploration programs in Bangladesh. He suggested that, if it desires World Bank assistance, the Government should propose a plan to initiate discussions on this matter. The Minister agreed.

Jute

11. The Minister of Jute, Mr. Abdur Rahman Biswas (who was relieved from his duties on April 25, 1980) said that jute still played a dominant role in Bangladesh with over 3 million farmers engaged in jute cultivation. He welcomed the proposed US\$20 million IDA Credit which had just been negotiated in Washington. This Credit would permit the jute mills to carry out a substantial program of BMR to increase production. Demand was still very high and difficult to meet since production levels were limited by frequent power cuts. Mr. McNamara said that while jute would be a main source of foreign exchange for Bangladesh for some time to come, it was unlikely to remain a reliable source of revenue and he repeated that much greater efforts had to be undertaken to diversify the use of jute and to promote the production and exports of non-traditional goods.

cc: Messrs. Hopper, Wiehen, Dunn, Koch-Weser, Rowat, Lamson-Scribner, Bourcier
(by pouch)

cleared with and cc: Mr. Storror

JSchwartz:fv

OFFICE MEMORANDUM

TO: Files

FROM: Anand K. Seth

SUBJECT: BANGLADESH: Minutes of Mr. McNamara's Meeting with Ministers of Agriculture & Forests; and Local Government, Rural Development & Cooperatives

DATE: April 25, 1980

1. Minutes of Mr. R. McNamara's meeting with Ministers of Agriculture & Forests; and Local Government, Rural Development & Cooperatives. Others present were:

Bank: Messrs W. David Hopper
A. Storrar
W. Koch-Weser
A. Denness
J. Schwartz
A. Seth

GOB : Secretary, Ministry of Agriculture & Forests
Secretary, Ministry of Local Government, Rural Development & Cooperatives
Secretary, Ministry of Power, Flood Control & Water Resources
Chairman, BADC
Director-General, IRDP
Chairman, BWDB

2. The Minister of Local Government, Rural Development & Cooperatives welcomed Mr. McNamara, noting his commitment to the development of Bangladesh and that the visit was most opportune being on the eve of the Second Five Year Plan.

3. The Minister of Agriculture & Forests in his opening remarks stated that GOB was trying to alleviate poverty and hunger in Bangladesh just as Mr. McNamara was attempting to do the same on a global basis.

4. The Minister described the rainfed wheat situation and said there had been a large increase in wheat production from about 600,000 tons in 1979 to 1.2 m tons this year. He expressed his hope that a similar break through in the rainfed paddy cultivation could be achieved over the next Plan period. For this purpose GOB had distributed 3500 minikets of HYV seed and fertilizer to the Union Councils.

5. He went on to discuss the minor irrigation based strategy as incorporated in the Medium Term Food Production Plan (MTFPP). Discussing GOB policies in this area, he outlined the following key policy decisions already made by GOB:

- (a) sell all new Deep Tubewells (DTW);
- (b) sell all new 1 cusec Low Lift Pumps (LLP);
- (c) continue the sale of Shallow Tubewells (STW) at full cost, excluding duties and taxes;

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April 25, 1980

- (d) progressively involve the private sector in the distribution of STWs and 1 cusec LLPs;
- (e) expand the private sector retailing of fertilizer to the Northwest within a year or two;
- (f) encourage domestic manufacturing of minor irrigation equipment without, however, adversely affecting the supply of equipment;
- (g) encourage establishment of private sector workshops;
- (h) offer assured markets to those suppliers of irrigation equipment who are willing to set up local manufacturing facilities; and
- (i) eliminate the subsidy on fertilizer as quickly as possible, but without causing a set back to consumption.

6. Specifically discussing the financing arrangements for the minor irrigation requirements of the MTFPP, the Minister for Agriculture and Forests pointed out that at present there existed a financing gap for 23,000 STWs and 9,000 DTWs. However, he added that his Ministry felt that a further 10,000 DTWs would also be utilised during the plan period.

7. On the question of improved utilization of existing minor irrigation facilities, the Minister said that political pressure was being brought to bear upon DTW users to expand irrigated area. As a result only 13% DTW were non-operational this season. Draft legislation to support Command Area Development (CAD) had been prepared and is awaiting proper inter-ministerial review. He appreciated IDA assistance in CAD work on a pilot basis last season, and he requested further IDA assistance to provide lined field channels.

8. Regarding the seed situation, the Minister assured Mr. McNamara that 28,000 tons of wheat seed had been lined up; but to be on the safe side importation of an additional 12,000 tons would be required for which he sought IDA assistance. GOB was also working on pulses and mustard and few varieties were being introduced from India in the hope that with better varieties the onslaught from wheat could be withstood. Potato was doing well, and research was ongoing to fill a serious gap in fruits and vegetables.

9. The Minister made specific reference to the following project proposals for which his Government would seek donor assistance:

- (a) Agricultural Credit projects to support the minor irrigation sector;
- (b) small scale water conservancy schemes financed on a time slice basis;
- (c) expansion of T & V system to the Khulna Division; and other high priority areas;

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April 25, 1980

- (d) strengthening the Agricultural Information Service;
- (e) cotton-seed and research;
- (f) technical assistance for project preparation, implementation and monitoring of procurement;
- (g) Integrated Pest Management Project;
- (h) hand tubewells - supply of raw materials for local fabrication;
- (i) simple mechanisation - for quick turn around between crops; and
- (j) private sector marketing of foodgrains.

10. Mr. McNamara, in reply, said that he was impressed by the GOB plans to increase food production from 14 m tons to 18-20 m tons by 1985. The objectives of the plan was quite ambitious - calling for a 7½% annual increase, but he would like to offer maximum support towards their achievement. Mr. McNamara suggested that the objectives be broken down and then each aspect be monitored closely for changes in policy that may be required, or for the difficulties in implementation that will be encountered.

11. Mr. McNamara said that he would like to expand the financial and technical assistance support for the program, and to develop macro economic and project performance indicators, to judge the success in implementation. Given the above, he would have little difficulty in a phased expansion of the Bank's lending from 250 m to 600 m. He warned that GOB would need to take action on project preparation to support the build up of the program.

12. Mr. McNamara enquired about GOB strategy to deal with the increasing landlessness, and its approach to Rural Development. The Minister of L.G., R.D. & C. emphasised GOB's strategy to increased production and economic activity in the rural areas based on cooperatives. Increased irrigation, rural industry and rural works were all geared to help the landless; and through cooperatives to ensure equal access to smaller farmers also. He emphasised the need for MT Credit support for rural industry. He agreed that the problem of landless will increase, unless specific measures are designed to face it. He identified the lack of grass root rural institutions in half of Bangladesh as a major part of the problem and said that the President was aiming to correct this through the establishment of cooperatives.

13. The Ministry of L.G., R.D. & C. sought immediate Bank assistance for the delayed Rural Development-II Project, now that the Rural Development-I Project was moving along well.

14. Mr. McNamara expressed his concern that in the entire discussion, project implementation had not been given its proper emphasis. He said that any increased assistance from the Bank to GOB would clearly depend on improved implementation of on-going projects and he suggested that this aspect be given proper emphasis by GOB. He concluded by saying that he hoped GOB and the Bank could jointly move ahead to achieve the targets set.

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15. Mr. McNamara summarised by saying that he was very much encouraged and he sensed a sense of dynamic determination on part of the President and all staff. Without making a formal commitment he would like to support the efforts of GOB to expand production as envisaged.

AKSeth:aa

OFFICE MEMORANDUM

TO: Files

DATE: April 24, 1980

FROM: John Schwartz, Operations Officer *JS*

SUBJECT: BANGLADESH : Notes on Mr. McNamara's meeting with Deputy Prime Minister in-charge of the Ministry of Industries, Mr. Jamaluddin Ahmed, on Saturday, April 19, 1980.

1. Mr. McNamara met with the Deputy Prime Minister in-charge of Industries, Mr. Jamaluddin Ahmed on April 19, 1980. The Minister was assisted by the Secretary, M/o Industries, Mr. Matiul Islam. The Minister of State for Science and Technology, Dr. Ghani and the Secretary of ERD, Mr. Muhith, also attended. Messrs. Hopper, Storrar, Koch-Weser and Schwartz were also present.

General Performance of the Industrial Sector

2. The Minister began by stating that since 1975, when the new regime came to power, growth in the industrial sectors covered by the Ministry (all except jute, textiles, sugar and food) had been substantial. Factories in the public sector ran more or less on schedule and absorptive capacity had improved. Much emphasis had been placed on training. Activities in the private sector had also expanded. However, production could have been significantly higher, had it not been interrupted by frequent power-cuts.

Private Industrial Sector

3. Mr. McNamara referred to his discussions with the Minister of Commerce, Mr. Saifur Rahman who had estimated total private industrial investment during 1979 at a low level of about US\$20 million equivalent, and asked what was being done to increase private investment. The Minister replied that while the initial response in 1976/77 of the private sector to a reduction in government regulations had been hesitant, private investment had picked up considerably during 1979. Single investments were larger (Tk.15-20 million as opposed to Tk.2 million a few years back). The Government's program of disinvestment (thus far about 500 units had been disinvested) had received a favorable response and would be continued. Entrepreneurs were better organized than before and Bangladeshis who had established themselves abroad were now more willing to invest in Bangladesh. The Minister observed that it was gradually being recognized in Bangladesh that nationalization had not brought the expected results and that private investment should therefore be afforded a larger role in economic development.

4. Other incentives that the Government had provided to encourage private investment were measures to attract foreign private financing such as (i) enactment of the Foreign Investment Protection Act, (ii) the creation of an Export Processing Zone (industrial plots would be allotted as of November 1980, while legislation was being prepared to establish a central authority to provide licences to firms set up in the zone), and (iii) the establishment of an International Promotion and Investment Company (with financial participation from IPS, DEG (Germany), IFC, CDC (UK) and perhaps also FMO (Holland)).

Files

April 24, 1980

Industrial Development Strategy during SFYP

5. The Minister said that the Second Five Year Plan (SFYP) strategy for the industrial sector focussed on the development of agro-based industries in keeping with the President's objective to double food production. Emphasis would be placed on the production of fertilizers, pesticides, pumps and electric motors to support agricultural production, and food processing industries for the purpose of import substitution. The intention was also to manufacture small tractors, which are thus far being assembled locally in small quantities only. In addition, priority would be given to diversifying the processing of raw materials (e.g. jute into jute twine, jutton and jute pulp); improving leather production (branching out into semi-finished and finished products); providing basic industrial needs for the population such as tools from the Bangladesh Machine Tools Factory, basic chemicals for the pharmaceutical industry, and increased local steel production (the expected demand of which during SFYP is estimated at about one million tons), through the establishment of a factory for the production of sponge iron. Development of the fishing industry for exports was a priority as well, in particular deep-sea fishing which was believed to have a great potential in the Bangladeshi waters, a possibility yet unexplored.

Scope of the SFYP for the Industrial Sector

6. The Minister stated that the objective for the public sector was to achieve optimum productivity through BMR. The public sector would only be expanded, if the private sector did not show sufficient interest. Export-oriented industries would be given priority.

7. Several modern technologies were being introduced: in sugar production, new high yielding varieties were being developed; a process to produce pulp from jute cuttings has proved successful for larger scale production, and trials with "jutton" (a mixture of cotton and jute) demonstrated the potential for substituting jutton for cotton in textiles.

8. The total number of sanctions for private investment during the SFYP had been set at Tk.2600 crores and the Minister had good hopes that up to Tk.2000 crores would actually be invested. Particular emphasis would be placed on the development of small and cottage industries to face the problems of increasing unemployment in rural areas. Investments in this sector had increased substantially over the past few years, in particular due to the IDA financed Small Industries Credit of US\$7.0 million. While activities in this sector had thus far mostly taken place in the metropolitan areas, greater attention would now be given to small and cottage industries in rural areas. Since the commercial banks had gained considerable experience in this field and were extending their operations to their district offices, loan applications from entrepreneurs in rural areas could be handled directly. Obviously, small industries could only be developed where electrification had reached. The Minister expressed his gratitude for IDA's successful support of the Small Industries Sector and welcomed the proposed US\$35.0 million Credit for a third project, which had just been appraised. Mr. McNamara said he was pleased with the progress in this field and emphasized the Bank's willingness to support this type of projects as they provide income for the landless and marginal farmers.

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9. In reply to questions by Mr. McNamara with regard to the production of non-traditional goods, the Minister said that several industries had been set up in the private sector to produce jute carpets, carbon black, petro-chemicals and cement. With IFC and Mitsui investment a joint venture was being started to build trawlers. The Minister expected the annual growth of exports of non-traditional goods to be in the order of 7 percent in real terms. The Minister also confirmed that tea production was continuing and that for the purpose of exports, measures were being taken for improved packing through the private sector. While referring to his discussions with the Minister of Commerce on the subject of non-traditional exports, Mr. McNamara suggested that the Minister of Industries collaborate with his colleague of Commerce to establish a detailed plan for the promotion of non-traditional exports as this would be of prime importance for Bangladesh, given the fact that jute, despite the currently favorable world market prices, was unlikely to remain a reliable source of income.

10. The Minister requested IDA support for the industrial sector during the SFYP. Mr. Islam indicated that because of increased private sector activity, the Development Bank, BSB, was short of funds and would need substantially more than the US\$40 million IDA financing currently scheduled for the Second BSB Project.

11. Mr. McNamara said that in his discussions with the President, he had indicated his willingness to raise IDA financing for Bangladesh up to US\$600 million annually by the end of the SFYP, provided a pipeline of sound projects was prepared and project implementation would be satisfactory. Additional requirements for the industrial sector would be that projects would aim at job creation and were export-oriented. He suggested - and the Minister agreed - that consultations be held with the Ministry of Finance to determine the national priorities for IDA financing in respect of the industrial sector.

Science and Technology

12. The Minister of State for Science and Technology in a brief statement outlined ongoing activities for the development of modern technology in Bangladesh. Generally, Bangladesh had found western technology difficult to apply and the Government therefore endeavoured to adapt it to the local environment. Trials were being undertaken to use solar techniques for cooking purposes and pumps. Also, efforts were being made, with IDA assistance, to develop "jutton" to substitute for cotton imports and diversify the end use of jute.

cc: Messrs. Hopper, Wiehen, Dunn, Koch-Weser, Rowat (by pouch)
cleared with and cc: Mr. Storror
JSchwartz:fv

OFFICE MEMORANDUM

TO: Mr. Alexander Storrar

DATE: April 24, 1980

FROM: K. A. Pisharoti ✓

SUBJECT: Minutes of meeting of Mr. Robert S. McNamara with the Minister of Health and Population Control.

I am enclosing 3 copies of the minutes of meeting of Mr. Robert S. McNamara with the Health Minister held on April 18, 1980.

cc: Messrs. Hopper, Wiehen, Dunn, Koch-Weser ✓

KAPisharoti:aia

Minutes of meeting with the Minister of Health and Population Control

Those present from the Government included Prof. M. A. Matin, Minister of Health & Population Control, Dr. Fazlul Karim, Minister of State, Mrs. Kamrun Nahar Jafar, Deputy Minister, Mr. A. M. Hyder Hussain, Secretary, PCFPD, Prof. M. A. Haleem, Secretary, Health, Mr. A.M.A. Muhith, Secretary, ERD and other officials of the Ministry.

Mr. Robert S. McNamara, Mr. David Hopper, Mr. Koch-Weser, Mr. Alexander Storrar and Dr. K. A. Pisharoti attended from the Bank.

After extending a hearty welcome to Mr. Robert S. McNamara, Dr. Matin explained the progress achieved under the population control program since 1976. Salient features highlighted include building up of an infrastructure with about 18,000 field workers; setting up of 60,000 outlets for domestic distribution of contraceptives; providing technical support to the program through recruitment of 280 medical officers during the past 15 months; and achievement of 162,000 sterilizations in the first 9 months of 1979-80, the highest ever recorded; and achieving a contraceptive prevalence rate of about 14% of eligible couples by 1979. To queries from Mr. McNamara, the Minister pointed out that 80% of sterilizations is of females and that couples with younger parity are now coming forward for sterilization (average number of children to acceptors is between 4 to 4.5)

To Mr. McNamara's question on the target for the SFYP and methods proposed to achieve the target, the Minister pointed out that the aim is to increase net acceptors to about 38% of eligible couples by 1985, from the present level of 14%. The strategies proposed to be adopted are a. raising the age of marriage of girls to 16+; influencing those with 1-3 children increase the spacing for the next child birth; and influencing couples with parity 4 and above to accept sterilization. Mass mobilisation through educational means, something similar to that adopted for canal digging program, is proposed to be adopted. It was mentioned that facilities for Menstrual Regulation will be made available in rural areas through training of doctors and family welfare visitors. To Mr. McNamara's queries, it was pointed out that there is no psychological barrier among the rural population to accept abortion (M.R) and that abortions are being practised even now on a large scale. While accurate figures are not available, there are about 15,000 deaths per annum from induced abortion in the country and over 60% of obstetric and Gynaec beds in hospitals are occupied by incomplete & septic abortion cases. The Minister pointed out that sterilization is a cost effective method and government has saved about 50 crores taka during last 9 months through the 162,000 sterilizations done. It is hoped that a much larger number of sterilizations will be done in 1980-81 after the posting of 480 doctors in the family planning program.

Mr. McNamara, while winding up, congratulated the government on its recent success in program implementation and thanked the Minister and his colleagues for finding the time for discussion with him. He stressed the need for keeping a continuous check on program performance to know how the program is moving. The Government should be prepared to accept even shortfalls in achievement of targets. What is necessary is a will to analyse the causes; strengthen the management of the program on a continuing basis; and modify the system of incentives and disincentives on a continuing basis so as to move closer towards the achievement of targets.

KAPisharoti:aia
April 24, 1980

OFFICE MEMORANDUM

TO: Files

DATE: April 21, 1980

FROM: Armand Van Nimmen

SUBJECT: Notes on Mr. McNamara's meeting on April 17 with Dr. Huda, Minister for Finance.

1. On April 17, 1980 Mr. McNamara met with Dr. M.N. Huda, the Honorable Minister for Finance. A list of the officials attending the meeting is attached.

2. Dr. Huda welcomed Mr. McNamara on his third visit to Bangladesh. The Finance Minister started the discussions by pointing out that a great deal of progress had been achieved since Mr. McNamara's last visit in 1976. The Two-Year Plan, which was about to come to an end, had permitted the Government to determine more clearly its development priorities for the next five years. These priorities included agriculture and rural development, as well as related infrastructural requirements, such as rural roads and rural electrification. Emphasis would also be placed on the provision of integrated public services, such as health, primary education and vocational training. A mass literacy drive would be undertaken and job opportunities would be created in order to make a dent in the unemployment problem. People's participation in the development effort would be ensured, through the establishment of village committees and the decentralisation of central authority.

3. Dr. Huda remarked that the Government was aware of the ambitious character of the Plan. However, more had to be done than in the past, in order to accelerate the country's development. Besides, the pace of Government investment spending had already significantly picked up in the last few years --- to about 20 percent annually, in real terms. It was envisaged to maintain this rate of increase in the next five years.

4. On the subject of project implementation, the Finance Minister said that the Government had made significant progress, particularly in speeding up project approval. Further efforts would have to be undertaken to improve the preparation of projects and the monitoring of their execution. Technical assistance in these areas might be required.

5. Dr. Huda stressed the importance of domestic resource mobilisation for the achievement of the Plan targets. The Minister stated that the Government was seriously considering the introduction of land taxation, but no decision had been taken yet on the precise form of this taxation or on when it would be introduced. In the meantime, improved tax administration, more adequate utility pricing and a gradual reduction in subsidies would be the main sources of increased revenue. Recent international inflation had made the need for frequent price adjustments more urgent even than in the past, particularly since -- with present price increases -- the Government was determined to avoid deficit financing. However, because of the rapid rate of international inflation, the internal price adjustments might not always be sufficient to reduce the absolute amount of the subsidies involved. There were political limits on the increases which the Government could impose.

6. The Minister explained that the balance of payments situation of Bangladesh would continue to be very precarious. There were limits on the expansion of non-traditional exports. On the other hand, the import bill would continue to increase, despite efforts to reduce the country's dependence on oil by substituting gas for diesel. As a result, the balance of payments gap would continue to widen and the country would be needing increased assistance from the IMF and the World Bank.

7. To end, the Minister wanted to raise three points. First he enquired as to whether the authority of the World Bank Dacca Office could be increased. Second, the Minister pointed out that, in his view, IDA conditionality had become more difficult in recent years. Finally, he made a plea for increased IDA lending and greater commodity assistance to Bangladesh.

8. Mr. McNamara replied that he would be willing to delegate more authority to the local office. He requested Government to spell out in which matters such a widening of authority would be useful to Bank operations and he would give it fullest consideration.

9. With regard to increasingly difficult IDA conditionality, Mr. McNamara suggested that the Government submit a list of such conditions to the Bank. If some of our past conditions were not in the interest of Bangladesh, we would be willing to reconsider them, as the Bank's main purpose was to serve the interest of its member countries. Mr. Hopper reminded Dr. Huda that he had made a similar suggestion more than a year ago, but that so far no reaction had been received from the Government.

10. On the last point raised by Dr. Huda, Mr. McNamara replied that Bangladesh was not receiving its proper share of IDA resources. Indeed, he perceived it as a personal failure that eight years after independence the yearly volume of lending had only reached 200 million dollars. Mr. McNamara pointed out that he recognised how difficult the Bangladesh situation was and how enormous the problems in developing a country with only a 20 percent literacy rate. Nevertheless, the country's performance with respect to both domestic resource mobilisation and family planning had remained unsatisfactory. Provided project implementation could be accelerated and improvement could be registered in a number of macro-economic indicators, Mr. McNamara hoped that it would be possible to raise the lending program to \$600 million in FY85. Mr. McNamara said that he would leave an Aide Memoire on the subject with President Ziaur Rahman.

11. On the subject of program lending, Mr. McNamara added that the World Bank was primarily an institution designed to lend for projects. The Board's views on the matter were very strict. Mr. Muhith entered the discussion by pointing out that next year's availability of commodity aid would be particularly poor. The opening pipeline would be only \$400 million. Taking into account likely new commitments, it would be difficult to expect disbursements in excess of US\$550 million, as against a balance of payments need of US\$700 million. Mr. McNamara replied that, with a constant share of 20 percent of the lending program being presently earmarked for program assistance, the absolute amount of IDA lending for such purposes would gradually increase.

cleared with and cc: Mr. Storrar.

cc: Messrs. Hopper, Wiehen, Dunn, Holsen, Jansen, Armstrong, Koch-Weser.

AVN:AS:sa

List of officials attending the meeting
between Mr. McNamara and Dr. Huda on
April 17, 1980

From the Government of Bangladesh

Dr. M.N. Huda, Hon'ble Minister for Finance
Mr. Ataulddin Khan, State Minister for Finance
Mr. G. Kibria, Finance Secretary
Mr. Nurul Islam, Governor, Bangladesh Bank
Mr. A.M.A. Muhith, Secretary, External Resources Division
Mr. A.K. Azizul Haque, Secretary, External Resources Division
Mr. Ataul Karim, Additional Foreign Secretary
Mr. Shafiul Alam, Additional Secretary, External Resources Division
Mr. Mafizur Rahman, Member, Planning Commission
Dr. A. Farouk, Member, Planning Commission
Mr. M.L. Majid, Joint Secretary, External Resources Division
Mr. Syeduzzaman, Alternate Executive Director, IBRD

From the World Bank

Mr. R.S. McNamara, President
Mr. W.D. Hopper, Vice-President, South Asia Region
Mr. C. Koch-Weser, Personal Assistant to the President
Mr. A. Storrar, Chief of Mission, Dacca Office
Mr. A. Denness, Deputy Chief, Dacca Office
Mr. A. Van Nimmen, Senior Economist, Dacca Office.

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OFFICE MEMORANDUM

TO: Files

DATE: April 23, 1980

FROM: A. Storrer

SUBJECT: Minutes of meetings between President of Bangladesh,
Ziaur Rahman and President of the World Bank, Mr. R.S. McNamara
- April 17 and 18, 1980

1. After visiting the newly excavated Patall Canal the two Presidents returned to Cox's Bazaar for a 3-hour long informal and wide ranging discussion. A list of officials attending the meeting is attached.
2. At a private meeting on the previous day President Zia had outlined to Mr. McNamara the general policy to be followed for the development of the country and the need for increased foreign assistance to Bangladesh. Thus the meeting at Cox's Bazaar dealt more with specifics than with overall policy. A resume of topics discussed is set out below.

Food Production

3. President Zia dwelt for some time on the doubling of food production and he took pains to point out that by developing self help schemes food production would increase quicker than many people today believe would be possible. He explained that the primary objective of increased production was to ensure that people ate better and the secondary objective was that of export. He emphasised that increased production would provide substantial employment opportunities for the rural people.

Storage and Marketing

4. Based on the assumption that Bangladesh might be producing 18 to 20 million tons of foodgrains in 1985, Mr. McNamara asked if plans had been made to ensure that enough storage space would be available. President Zia replied that a detailed program still had to be worked out; he explained the need for greater participation of the private sector at the village level, additional silo storage for strategic reserves, and more involvement of local government (thana) authorities as the major measures for increased storage capacity.

Wheat Research Institute

5. Mr. McNamara enquired why a separate Wheat Research Institute was being set up bearing in mind that a large Agriculture Research Station is already being established near Dacca. It was explained that as wheat varieties were very area specific that two sites had been chosen (Jessore and Kushtia) because they were representative of the main wheat growing areas. As IADS has been involved with the overall agriculture research program, it was suggested that GOB should consult with IADS before finalising the proposals for a Wheat Research Institute.

Cotton

6. President Zia explained the need to grow about 1 million acres of cotton as a means of eliminating the present high level of importation. He agreed that more research would be needed to support an extensive program but he made it clear that he wanted to push ahead quickly with this crop. He was advised that he should expand with some caution as control of pests could become a real problem.

Pumps and Engines

7. President Zia pointed out that government intended to increase substantially the use of shallow tubewells and LLPs in Bangladesh and to move as quickly as possible towards producing all the equipment locally. He explained that GOB had already agreed to licence two manufacturers of engines, 1 for 8000 units a year (Deutz) and the other for 10,000 units a year (Mitsubishi). He further mentioned that Bangladesh already had the capacity to meet the country's requirement of pumps.

Energy

8. President Zia stressed the importance of developing energy sector especially the search for oil. He indicated that although two foreign companies were showing interest in exploration he would very much like assistance from the Bank. Mr. McNamara expressed strong interest in assisting with energy development and indicated that Bangladesh should produce as quickly as possible a development plan for the sector. Mr. Hopper stated that he was in touch with a small company (International Energy Development) which specialised in assisting countries such as Bangladesh in setting out such a program. Mr. Hopper agreed to put the company in touch with GOB.

Power Generation

9. President Zia explained the country's problems with power generation, and advised that capacity (800 megawatts) utilisation was only 60%. This state of affairs was partly due to poor maintenance and partly to the very diverse nature of the equipment, a direct result of bilateral assistance. President Zia added that the equipment obtained through bilateral aid was much more expensive than that acquired through ICB, and especially for this reason he would like to see more participation with the Bank. Mr. McNamara replied that we could help in this area, that ICB should result in a better deal for the country and that he would expect to see a large training component in any project presented to the Bank.

Rural Electrification

10. The ongoing USAID program covering 47 thanas was explained as were the virtually completed plans for electrifying a further 100 thanas (again USAID). President Zia indicated that he wanted to move as quickly as possible to provide rural electricity in the remaining 250 thanas and he hoped the Bank would be able to provide finance for this. Mr. McNamara stated that the Bank would be happy to participate in this important program.

Land Ownership

11. Mr. McNamara enquired about Land Ownership policy in Bangladesh. President Zia explained the holding size in the northern part of Bangladesh were larger than in the South but that overall holdings were small and that little would be gained by a total redistribution of land. He stated that government intended to enforce the legal limit of 33 acres and that a move would be taken soon to do so. However, he made it clear that he wished to leave it to the people at the local level to implement whatever reform may be possible. He gave examples of some achievements already made in this direction and expressed the resolve of the government to assist in whatever way possible. He considered that reforms would be slow..

Mr. McNamara took the opportunity to raise a number of points associated with Bank participation in the development of Bangladesh. The main points were as follows:

Project Implementation

12. Mr. McNamara made it clear that considerable improvement in project implementation would be needed to justify increased participation by the Bank. He added that he was prepared to plan ahead on the assumption that performance would improve and that he would make administrative and financial arrangements to meet this, especially for project preparation. However, he made it equally clear that the additional projects prepared would be financed only if implementation improved.

Project Monitoring

13. Mr. McNamara stated that in his view the government should give the highest priority to intensive project monitoring and that government must respond quickly with corrective action where problems arise. President Zia indicated that monitoring was improving. Mr. McNamara observed in his reply that on the information supplied to him there was still a long way to go.

Family Planning

14. Mr. McNamara commented strongly on the poor performance of family planning. Based on the past performance he found it hard to believe that the percentage of net acceptors could be increased from 14 to 38 over the five year period. President Zia accepted the criticism and pointed out that the political process had to be geared up as a major means of achieving success. He explained that family planning would constitute the third part of the "revolution", and that he would start campaigning very soon making full use of local leadership. At the same time he intends to tighten up the administration of the program through greater involvement of local leaders. Mr. McNamara suggested that government should continue to explore less conventional methods of achieving targets and President Zia agreed with this. In reply to a query on abortion in Bangladesh, President Zia stated that it was fairly common and not unacceptable as a method of reducing the birth rate.

April 23, 1980

Private Sector

15. Mr. McNamara dwelt for some time on the importance of developing the private sector. He pointed out that he was not concerned with ideology but with the need to make full use of the talent and finance available within the private sector in Bangladesh as a means of furthering economic development. President Zia replied that he very much favored increased activity in the private sector and that his government would do its utmost to develop the interest of both foreign and local entrepreneurs.

Finale

16. Mr. McNamara referred to his private discussions with the President the day before, and to the meetings he would have with Cabinet Ministers the same afternoon and the following morning; after completing these discussions he advised President Zia he would like to leave behind an aide memoire dealing with the main policy matters covered during his visit. President Zia welcomed such a proposal. Copy of the aide memoire is attached.

encs.

cc - Messrs. Hopper, Wiehen, Dunn, Koch-Weser

AS:torrar:sn

List of officials attending the meeting
between President Ziaur Rahman and
Mr. R.S. McNamara

Government of Bangladesh

President Ziaur Rahman, President
Dr. F. Mahtab, Minister of Planning
Mr. A.M.A. Muhith, Secretary - ERD

World Bank

Mr. R.S. McNamara, President
Mr. W.D. Hopper, Vice President, SAR
Mr. A. Storrar, Chief of Mission, Dacca Office
Mr. A. Denness, Deputy Chief of Mission, Dacca Office
Mr. C. Koch-Weser, P.A. to the President

OFFICE MEMORANDUM

TO: Files

FROM: Armand Van Nimmen

SUBJECT: Notes on Mr. McNamara's meeting on April 17 with Dr. Mahtab, Minister for Planning and Members of Planning Commission

DATE: April 19, 1980

1. On April 17, 1980 Mr. McNamara met with Dr. Mahtab, Minister for Planning and the Members of the Planning Commission. A full list of the officials attending the meeting is attached.
2. Dr. Mahtab welcomed Mr. McNamara to Bangladesh and thanked him for the interest shown by the World Bank President in Bangladesh's development efforts.
3. At the request of Mr. McNamara, Dr. Mahtab proceeded to explain the highlights of the country's development strategy for the next five years. This strategy was based on the recognition of the fact that the country's problems were enormous and the need for solving them extremely pressing. An ambitious and aggressive Plan was, therefore, essential for the country's survival.
4. The main emphasis of the Plan would be on agricultural development, through increased irrigation and more intensive use of inputs such as fertiliser and credit. Efforts would also be undertaken to provide farmers with improved extension and marketing facilities.
5. With regard to population control, the Minister recognised that progress in the past had been insufficient, due to lack of coordination and supervision. However, recent performance, especially in terms of the number of sterilisations, had been improving. The main thrust during the next five years' period would be on increasing motivation, achieving grass-root involvement in the program and raising the minimum marriage age.
6. The Minister further explained that, in his view, there was sufficient evidence to indicate that countries with decentralised administrative systems have, by and large, shown above-normal performance in agricultural development. Therefore, the Government was determined to strengthen local bodies at the thana, union and village levels. The number of local growth centers providing infrastructural and service facilities to surrounding villages, would also be greatly increased.
7. Human resources development, the Minister added, would be one of the keystones of the next five-year plan. Greater emphasis would be placed on education - especially primary and vocational. The mass literacy drive would be pursued with increased intensity. Skills would have to be imparted on a massive scale in order to provide increased employment opportunities to the large number of presently underemployed.

8. The Minister indicated that the size of the overall plan would be in the order of US\$16.5 billion, of which US\$13.0 billion in the public and US\$3.5 billion in the private sectors. The estimated domestic resource mobilisation (including the private sector) was estimated at US\$7.5 billion. The required net capital inflow was, therefore, US\$9 billion. Nearly 33 percent of the public sector plan would be earmarked for agriculture. The foodgrain target would be set at 20 million tons. However, a supplementary program would be initiated in the third year of the Plan, if the required resources were to become available.

9. The Minister stated that the two major constraints to the achievement of the plan targets would be: (i) the domestic resource mobilisation and (ii) plan implementation capability. The Government was aware of these constraints and was determined to improve the domestic resource mobilisation, through better tax administration, the gradual elimination of subsidies and improved pricing policies in the public sector enterprises. To improve implementation capability the Government was about to embark on a three-pronged program which would include: (i) reorganisation of management procedures in six key ministries, (ii) training of personnel, especially in the Planning Commission and (iii) improved monitoring of progress in plan implementation, both in the Planning Commission and in the most critical line ministries. Technical assistance might be requested from the Bank in all these areas, but more time was required to determine the exact assistance needs.

10. Dr. Mahtab then listed the areas in which foreign financial assistance would be needed. These included - in the agricultural field - support for the T&V system and the IJCS (Intensive Jute Cultivation Scheme) cotton development, oilseeds production and the sugar industry. In addition, agricultural support facilities, such as transportation and rural electrification, would be heavily dependent on foreign assistance. In order to strengthen the balance of payments, the development of natural gas and increased production of fertiliser would also be in need of foreign aid. Finally, because of the gradual elimination of food assistance, there would be an increasing need for commodity assistance.

11. Mr. McNamara thanked the Minister for his enlightening expose on the envisaged strategy for development, and expressed his full agreement on the choice of priorities in the Plan: agriculture, family planning and primary education. Mr. McNamara thought that the Medium-term Food Production Plan formed a satisfactory base for agricultural development. However, he felt there was a lack of a well-defined program in family planning, especially in view of the poor results achieved thus far. He enquired about specific performance criteria, such as the net acceptors rate.

12. The Minister replied that there was not enough evidence as yet on the improvement in the net acceptors rate. However, it was generally

April 19, 1980

assumed that the rate had improved from around 7 in 1975 to about 14 at present. This meant that 2.4 million couples out of an eligible population of 17 million couples were being effectively protected. The Government's target was to raise the net acceptors rate to 38 percent by the end of the five-year plan.

13. Mr. McNamara stated that IDA's allocation to Bangladesh could be considerably in excess of the present level of US\$200 million. He had earlier expressed his willingness to raise this yearly allocation to US\$600 million in FY85, provided the country's economic performance in a few key areas were to improve. Family planning was one such area. Another was domestic resource mobilisation. In this respect, Mr. McNamara enquired about the tax effort which the Government intended to undertake during the Second Five-Year Plan. Dr. Farouk replied that the Government aimed at raising the tax/GDP ratio from 8.0 to 10.7 percent (subsequently it was clarified that the latter ratio included existing taxes only. Including new tax measures, the targetted ratio was 13.0 percent).

14. Mr. McNamara, finally, enquired about the prospects for the exports of non-traditional items. Dr. Farouk replied that the terms of trade for jute and jute goods would continue to deteriorate and that it was, therefore, imperative to diversify the export base. However, the export of non-traditional items would run into stiff competition. One could, therefore, not expect a very rapid increase in the export of such items. Mr. McNamara added that the private sector could greatly contribute to the development of the non-traditional export sector. Dr. Mahtab agreed, and said that the Government was strongly determined to encourage the private sector.

Cleared with and cc - Mr. Storrar

cc - Messrs. Hopper, Wiehen, Dunn, Holsen, Jansen, Armstrong, Denness,
/ Koch-Weser

AVNimmen:sn

List of officials attending the meeting between
Mr. McNamara and Dr. Mahtab on April 17, 1980.

From the Government of Bangladesh

Dr. Fasihuddin Mahtab, Hon'ble Minister for Planning
Dr. Farouk, Member, Planning Commission
Mr. Mafizur Rahman, Member, Planning Commission
Dr. S.H.K. Eusufzai, Member, Planning Commission
Mr. S.M. Al-Hussainy, Member, Planning Commission
Mr. A.M.A. Muhith, Secretary, External Resources Division
Mr. A.Z.M. Obaidullah Khan, Secretary, Agriculture
Mr. Syeduzzaman, Alternate Executive Director, IBRD
Mr. A.M. Hyder Hussain, Secretary, Population Control and Family Planning Division
Dr. Mahfuzul Haq, Division Chief, Planning Commission
Dr. Shahadatullah, Division Chief, Planning Commission

From the World Bank

Mr. R.S. McNamara, President
Mr. W.D. Hopper, Vice-President, South Asia Region
Mr. C. Koch-Weser, Personal Assistant to the President
Mr. A. Storrar, Chief of Mission, Dacca Office
Mr. A. Denness, Deputy Chief of Mission, Dacca Office
Mr. A. Van Nimmen, Senior Economist, Dacca Office.

The World Bank / Resident Mission in Bangladesh
222 New Eskaton Road
G.P.O. Box 97, Dacca, Bangladesh
Telephone : 400003-5, 402810, 402841
Cable Address : INTBAFRAD, Dacca

April 19, 1980

Dear Mr. President:

I would like to thank you again for your very kind invitation to visit Bangladesh, for the generous hospitality you have showed me on this visit and for the time you devoted out of your busy schedule to our... discussions, which I found very productive.

I would like to take this opportunity to repeat that the World Bank Group is eager to work with your Government to accelerate the economic development of Bangladesh. As we discussed, I would hope that if performance in economic management, in project preparation and in implementation improves, the level of Bank Group assistance would equal the US\$600 million you requested, in the last year of the Second Five Year Plan (i.e. FY85). We also discussed some of the measures which we believe are essential to such improved performance. I have summarized these in the attached Aide Memoire.

Thank you again for your warm welcome. I sincerely hope that in the coming years the results of your renewed personal effort will be seen in achievement of your objectives for progress in Bangladesh, and that the Bank Group will contribute increasingly to this.

Sincerely,

Robert S. McNamara

His Excellency
Ziaur Rahman
President of the People's Republic of Bangladesh
Dacca, BANGLADESH

Attachments

BANGLADESH
AIDE MEMOIRE

During the visit of Mr. McNamara, President of the World Bank Group, President Rahman and President McNamara discussed the programs designed to accelerate the economic development of Bangladesh and the conditions under which IDA lending to Bangladesh could be increased substantially to support this effort. Mr. McNamara supported the Government's approach of supplementing the Second Five-Year Plan (SFYP) targets, with realistic implementation plans prepared annually for the subsequent 2-3 years. In particular, the Government's expressed priorities for improved agricultural production, for primary education, and for population control should be reflected in the annual allocation of scarce investment and managerial resources.

Mr. McNamara said the World Bank Group was eager to work with Bangladesh towards the achievement of rapid economic growth and to expand its lending to support that objective. The Bank Group's ability to increase lending to Bangladesh would depend on broad improvements in economic performance and improved performance in project preparation and implementation. Among the measures which would be of particular importance in achieving Bangladesh's objectives and warranting increased Bank lending are those referred to below. While quantitative targets are important indicators, what would be more important in the Bank Group's assessment would be the underlying policy and organizational changes made by the Government.

I. ECONOMIC PERFORMANCE

A. Exports. The Government should continue to improve its export performance so as to gradually increase the share of the SFYP financed by Bangladesh's export earnings. Because exports of jute and jute goods are expected to grow relatively slowly, export diversification in the form of a more rapid expansion of "non-traditional" exports (i.e., other than jute and tea) is essential. An average annual growth rate in the volume of non-traditional exports of 8.5% should be feasible over the next few years. To achieve this, consideration should be given to expanded incentives for exporters, improved support services, and strengthening of private sector producers.

B. Resource Mobilization. The ambitious development targets imply improved domestic resource mobilization to enable the Government to meet its projected share of Plan financing.

1. The Government should adopt measures that would serve to raise current revenues from 8% of GDP (at market prices) in FY79 to at least 13% by FY85, while the share of current expenditures (excluding the jute and food subsidies) in GDP should increase very little, if at all --- as a result domestic savings should rise from slightly over 3% of GDP in 1979 to somewhat more than 7% in 1985.

2. Explicit targets should be established for reducing subsidies. For example, the unit subsidy on fertilizers, which is now about 40%, should be reduced by one-fifth annually so it could be eliminated by FY85. A target should be established for phasing out the food subsidy.
3. The findings and recommendations of the five resource committees should be consolidated into a time-phased action program for reducing subsidies and otherwise rationalizing public enterprise and utility pricing policies as part of a comprehensive fiscal strategy paper (a financing plan for the SFYP). The fiscal strategy paper should be completed by April 1, 1981.

C. Appropriate Investment Strategies. To achieve the growth objectives, investment strategies must be carefully designed to assure quick results at lowest costs and the number of new investments started must be consistent with a realistic assessment of resource availability to avoid the waste inherent in starting too many projects which cannot be completed on schedule.

1. Agriculture. The Medium-Term Food Production Plan developed jointly by GOB agencies and Bank staff should be treated as the hard core of the SFYP for agriculture, with cereal grain production rising from 13 million tons in 1979 to 18 to 20 million tons in 1985 under conditions of average rainfall. In irrigation, the Government should avoid new investments in multi-year, capital-intensive schemes and concentrate instead on minor irrigation activities, schemes that entail low unit costs and rapid returns, and the rehabilitation of the existing irrigation infrastructure.

- a. Investment Allocation to Agriculture. The Government should reverse the decline of recent years in the proportion of total resources devoted to agriculture in the Annual Development Program (from 31% in FY75 to 22% in FY80). While it is understood that the overall economic development will require increased outlays in several other sectors of the economy as well, and that many other factors besides finance are important for agricultural development, the proportion of the ADP devoted to agriculture has been too low and should be raised. The Government should increase the allocation (including rural development and water resources development but net of the fertilizer subsidy and Food-for-Work activities) from 22% of the ADP in FY80 to about 30% by FY85, with major increases in real terms to come in FY81 and FY82.
- b. Water Development Board. The Water Development Board (WDB) has begun to focus its efforts on and should continue to emphasize: ongoing aided projects; low unit cost new projects for which there are firm indications of external support;

and rehabilitation and expansion of existing schemes (ground-water and low-lift pumps in northern districts and the Ganges-Kobadak project). The allocation of funds for major irrigation projects and programs in the FY81 and FY82 budgets of WDB should be on the lines of the summary of WDB's Irrigation, Flood Control and Drainage Program as shown in Table A-3 (which is attached) of the Medium-Term Food Production Plan.

- c. Minor Irrigation. The Government should make a major push during the SFYP to double the area under irrigation. About 80% of the incremental irrigated area during the SFYP should come from minor irrigation (low-lift pumps, deep and shallow tubewells, hand tubewells). About half of the Government's total financial outlays for water resources development should be devoted to minor irrigation. Allocations for the imports of diesel fuel for irrigation pumps and spare parts of irrigation equipment should be raised to correspond to the increase in area served by diesel pump irrigation. To overcome delays in fuel delivery to the farmers, a study should be made to determine the need for bulk storage facilities for diesel fuel in the rural areas. As part of the Medium-Term Food Production Plan, Project Proformas have been drafted for each category of minor irrigation equipment. The FY81 and FY82 BADC Budget and Annual Import Program should provide for the budgetary allocation, procurement and import of minor irrigation equipment as set out in these Project Proformas and also for the import of diesel fuel and spare parts required for the full operation of all minor irrigation equipment. Efforts should continue to engage increasingly the private sector in this effort.
2. Population. The reduction of population growth remains a central objective. Every effort should be made to reach, and if possible exceed, the number of acceptors now planned -- the number of net acceptors should increase by at least 12% per year, rising from 14% of couples in reproductive ages in 1979 to 28% in 1985. Population control programs have been hampered by poor performance by field workers. Measures designed to improve staff discipline and organization were agreed during negotiations of the Second IDA Population Project. Progress in implementing them, and the civil works components in both Population Projects, should be kept to the agreed schedules. Another problem has been inadequate management. Senior posts which have been unfilled for long periods should be filled. Cooperation with the Health Department should be improved. It is essential that the best management talent be devoted to this sector, that it continue to have high level political support and that the personnel involved in the program be imbued with a greater sense of urgency in implementing the program effectively.

II. PROJECT PERFORMANCE

A. Development of a Plan Implementation Program. The two or three year "rolling" plan which would supplement the SFYP, should contain a financing plan (as mentioned above) and a proper monitoring component as well as a detailed investment plan. Such a document should be prepared by September 1, 1980, to be reviewed by a Bank mission in September/October to provide the basis for discussions of the SFYP at the next regular Aid Group meeting in May 1981.

B. Project Preparation and Implementation Capacity. The Government should strengthen its capability to: prepare projects and programs; monitor progress in implementation (with respect to agricultural progress, particular emphasis should be placed on monitoring receipt of required inputs); identify bottlenecks; formulate measures to overcome them; enlist the cooperation of relevant ministries and agencies of the Government in furthering implementation; and, at budget time, determine the level of appropriations needed for the implementation of each major project program.

1. Specifically, the Planning and Evaluation Cells in the ministries and agencies concerned with agriculture (Agriculture, Food, Flood Control, Local Government, BADCO) should be strengthened by enlarging their responsibilities to include project preparation and implementation.
2. Expatriate advice for project generation and implementation will be necessary to increase absorptive capacity in the short run and the willingness to accept such assistance in the operational ministries will be necessary, if investment and growth objectives are to be met.

Date: April 19, 1980

Table A-3
(Revised March 3, 1980)

BANGLADESH
FOOD PRODUCTION PLAN

Summary of WDB's Irrigation, Flood Control & Drainage Program

| | <u>Benefitted Area ('000 ac)</u> | | | <u>Estimated cost during SFYP^{1/}</u> | | | | | |
|--|------------------------------------|------------------------------------|---------------------------------|--|-----------------------|-------------|-------------|-------------|-------------|
| | <u>Benchmark</u> <u>(77/78)</u> | <u>Estimated</u> <u>(79/80)</u> | <u>Target</u> <u>(84/85)</u> | <u>Total</u> | <u>FY81</u> | <u>FY82</u> | <u>FY83</u> | <u>FY84</u> | <u>FY85</u> |
| | | | | | <u>-----Tk M-----</u> | | | | |
| A. <u>Irrigation Program</u> | | | | | | | | | |
| 1. DND | 13 | 10 | 10 | - | - | - | - | - | - |
| 2. Chandpur | 12 | 35 | 59 | - | - | - | - | - | - |
| 3. Buri - Teesta | 4 | 13 | 15 | - | - | - | - | - | - |
| 4. G.K. Phase I | 65 | 70 | 80 | 130 | - | 30 | 50 | 50 | - |
| 5. G.K. Phase II | 38 | 60 | 100 | 150 | 50 | 50 | 50 | - | - |
| 6. GWD, LLP in Northern district | 18 | 40 | 60 | 150 | 50 | 50 | 50 | - | - |
| 7. Barisal with Extension | 2 | 10 | 200 | 300 | 100 | 100 | 100 | - | - |
| 8. Barisal-Patuakhali | - | - | 120 | 400 | 30 | 40 | 100 | 110 | 120 |
| 9. Karnafuli | - | - | 35 | 120 | 60 | 60 | - | - | - |
| 10. Muhuri | - | - | 50 | 700 | 230 | 220 | 150 | 100 | - |
| 11. Manu River | - | - | 30 | 200 | 120 | 80 | - | - | - |
| 12. Meghna-Dhonagoda | - | - | 30 | 600 | 50 | 100 | 150 | 150 | 150 |
| 13. Pabna Phase-I | - | - | 70 | 1200 | 100 | 150 | 300 | 350 | 300 |
| 14. Tubewells Project (Northern Districts) | - | - | 147 | 500 | 50 | 100 | 150 | 100 | 100 |
| 15. Unidentified New Schemes for benefits after 84/85 ^{2/} | - | - | - | 1550 | 50 | 50 | 100 | 450 | 900 |
| Sub-Total: | 152 | 238 | 1000 | 6000 | 880 | 1040 | 1200 | 1310 | 1570 |

^{1/} Indicative estimates based on discussions with WDB's HQ staff and, in some cases, review of project documents. These may have to be refined considerably following discussions with the respective project staff.

^{2/} These could provide a pipeline of about 300,000 ac irrigation for completion beyond 84/85.

| Benefitted Area (1000' ac) | | | Estimated cost during SFYP | | | | | |
|----------------------------|----------------------|-------------------|----------------------------|------|------|------|------|------|
| Benchmark (77/78) | Estimated (79/80) | Target (84/85) | Total | FY81 | FY82 | FY83 | FY84 | FY85 |
| ----- T: N ----- | | | | | | | | |

B. Drainage & Flood Control Program

| | | | | | | | | | |
|---|---|---|----------|--------|-------|-------|-------|-------|-------|
| 1. DFC - I | - | - | 250 | 400 | 150 | 150 | 100 | - | - |
| 2. Small Scale Drainage | - | - | 350 | 500 | 90 | 100 | 100 | 100 | 110 |
| 3. DFC - II | - | - | 200 | 800 | - | 150 | 250 | 250 | 150 |
| 4. Dutch-EIP | - | - | 300 | 600 | 120 | 120 | 120 | 120 | 120 |
| 5. EIP - type minor scheme | - | - | 400 | 800 | 50 | 150 | 200 | 200 | 200 |
| 6. DFC - III (benefits after 84/85) 1/ | - | - | - | 900 | - | - | 100 | 300 | 500 |
| Sub-total: | - | - | 1,500 2/ | 4,000 | 410 | 670 | 870 | 970 | 1,080 |
| | | | | 10,000 | 1,290 | 1,710 | 2,070 | 2,280 | 2,650 |

1/ These could provide a pipeline of about 400,000 D & FC for completion beyond 84/85.

2/ In addition, the proposed drainage and flood control works, will create potential for irrigation on 100-200,000 ac through pumps, tubewells or traditional methods.

Notes for Airport Departure Statement - Bangladesh
April 19, 1980

As I said when I arrived, I was very pleased to accept your President's invitation to visit Bangladesh. The purpose of the visit was to discuss the Second Five-Year Plan and to determine whether there are ways by which the Bank could increase its assistance -- both technological and financial -- to your country.

I have been very impressed by what I have seen. It is clear that there are opportunities for increasing World Bank assistance.

My most vivid impression is of a change in attitude; a movement toward greater self-reliance. Yesterday, the President took me to visit a canal excavation scheme near Cox's Bazaar. Started three months ago, it has been completed by the voluntary labor of 250,000 people. Already 6,000 acres, which last year at this time were dry and sun-baked, are irrigated and producing paddy. The increase in food production is valuable in itself. But of even greater importance is the demonstration that self-reliance, self-help, can accomplish miracles. It is that determination to solve your own problems which the President's dynamic leadership has stimulated. It gives me confidence that the rate of social and economic advance in Bangladesh will accelerate.

External assistance is important -- Bangladesh can use more. We in the Bank hope to provide more. But it can never substitute for a people's own contribution to their own welfare.

The President explained to me the priorities in the Second Five-Year Plan: increased food production, fertility reduction, and mass education -- and the objectives of the Plan in each area.

We are in complete agreement with those priorities.

Both the President and his Ministers stated their determination to increase the proportion of the Plan financed by your own resources. This will require substantial increases in domestic resource mobilization and a substantial increase in foreign exchange earnings, particularly from non-traditional exports (exports other than jute and tea). I have told the President I believe the Bank would be justified in substantially expanding its assistance to help achieve the objectives of the Plan and to supplement your nation's own greater effort in resource mobilization and foreign exchange earnings.

For the Bank to expand its financial assistance will require also a greater effort by your government in project preparation, project implementation and project monitoring. I am told this is underway.

So I leave greatly encouraged by the dynamic leadership being given to a nation determined to move toward greater self-reliance and an accelerated pace of economic and social advance.

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 8, 1980

FROM: David A. Dunn, Chief, ASADD

*David A. Dunn*SUBJECT: BANGLADESH: Mr. McNamara's Meeting with Mr. Saifur Rahman, Minister of Finance

1. Mr. McNamara met with Mr. Saifur Rahman at 9:00 a. m. on October 2. The Minister was accompanied by Ambassador Husain and Messrs. Kibria, Muhith, Syeduz-Zaman and A. Rahman. Messrs. Stern, Hopper, Wiehen, Storrar, LaFourcade and I also were present.

2. Mr. McNamara began the meeting by asking about the current flood and food situation. The Minister replied that damage had been minor and limited to small areas. The net effect on crop production might even be positive, as siltation would help the winter crops. Also, the fish yield should increase. Mr. Muhith added that the loss would perhaps be 3-4% of the year's total crop or 300,000 tons of the aman crop. Mr. McNamara asked what the year's total was expected to be and Mr. Muhith replied that, after any loss, it was now expected to be the same as the original estimate of 14.8 million tons. The Minister said that yield increases were expected, particularly in the northwest, and that a wheat target of 4.0 million tons had been set.

10/15
3. Mr. McNamara referred to President Ziaur Rahman's request for an increase in IDA lending to \$600 million per annum, and recalled that in his April 19 letter he had said that IDA could move toward that target by FY85 provided that the Government made progress towards meeting the objectives it had set for itself in the Second Five-Year Plan (SFYP). He had authorized an increase in staff to work on Bangladesh on the assumption that the targets would be achieved. It was necessary now to agree on a step-by-step approach on reaching the objectives and on interim targets. He asked Mr. Hopper when further discussions would be held on these performance criteria and Mr. Hopper said that the Region and the Government were already discussing them.

4. The Finance Minister mentioned several aspects of the domestic resource mobilization effort which pertained to the performance criteria. The tax base had been enlarged. The Government was pursuing a policy of setting prices in relation to cost. He cited recent increases in the prices of fertilizer, gas, paper, power, transportation and petroleum. These were hard decisions to take in a democracy, and it had been particularly hard to take so many within such a short period of time. Mr. McNamara noted that this was an area which had needed considerable attention and he expressed satisfaction that the Government was finally addressing it. Mr. Rahman noted that the President was now chairing a committee on resource mobilization.

5. The Minister went on to note other measures by which the Government hoped to increase the private sector contribution to resource mobilization. Bank rates were to be increased to more realistic levels, in the context of the EFF Arrangement which was being negotiated with IMF. The Government intended to disinvest some of its shares in profitable public sector enterprises through a mutual fund which would have a guaranteed return. SFYP Investment Bonds to yield 15% would be issued. The private sector would be allowed back in the banking business.

6. The Minister mentioned several other programs which were to be the major efforts of the Government during the SFYP: reform of the civil service; establishment of food, population, and illiteracy committees in village governments; agricultural reform through granting of tenure to sharecroppers; the medium-term food production plan; and the development of an export strategy. The core of the SFYP was the food, population and illiteracy programs.

7. Mr. McNamara said that all of these were essential priorities and he congratulated the Government on the appropriateness of these and the vigor with which they were being pursued. On population control, he stressed the need to be realistic. It was important to try to do much more than what was now being done, but the Government had to be realistic in assessing the demographic impact of factors which it was already too late to affect. The magnitude of the problem would have to be recognized, the inevitable demographic results accepted, and the problem attacked through the other side, e.g. working to meet the needs (especially for food) of the population. At the same time the Government might have to consider more extreme measures of population control than adopted as yet. The Minister noted again the emphasis on food production, e.g. the large wheat target of the Government. He said that efforts were being made to find employment for women in order to remove them from the marriage market.

8. Mr. McNamara said that with respect to FY81, IDA planned to increase its lending to \$325 million ^{1/} and no commitment could be made now for a further increase; however, IDA and the Government should process projects so that if funds do become available they could be brought forward.

9. Mr. McNamara referred to the difficult problems of allocating IDA resources and the fact that China would now have to absorb some Bank Group money. If more resources were not forthcoming, this could only come out of the existing allocations for other countries; therefore, the total resources had to be further expanded. He urged the Government of Bangladesh to back the Bank Group's efforts to raise more money and especially to contact the Arab countries. The Minister promised to contact Saudi Arabia and Kuwait on his next visit there and to support the new energy affiliate in his speech to the Annual Meeting.

1/ The approved figure is actually \$320 million.

10. The Minister referred to his disappointment at the outcome of the last Bangladesh Aid Group meeting in terms of aid pledges. He asked how the Bank could help. Mr. McNamara responded that donors were still disappointed with Bangladesh's performance; performance was now improving and the Bank would help by saying so. He and Mr. Hopper pledged to continue to approach other donors, but Mr. McNamara stressed that the best thing would be for Bangladesh to continue to improve its performance.

11. The Minister expressed on behalf of the President of Bangladesh a repeated sense of loss at Mr. McNamara's retirement. The President asked Mr. McNamara to visit Bangladesh again. Mr. McNamara said that he would be glad to continue to help Bangladesh after his retirement.

cc: Messrs. McNamara
Stern
Hopper (o/r)
Wiehen
Geli
Holsen
Jansen
Storrrar
LaFourcade
ASADD Staff

DADunn:c

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
(Through Mr. Ernest Stern, SVP, Operations)
FROM: W. David Hopper, VP, South Asia
SUBJECT: BANGLADESH: Your Appointment with Mr. A. M. A. Muhith

DATE: June 4, 1981

06/05

1. Mr. A. M. A. Muhith, Secretary, External Resources Division, Ministry of Finance in the Government of Bangladesh, has an appointment with you at 6 p. m. on June 15. Mr. Muhith is about to retire from the civil service. We understand that he will leave the Government on or about July 15. We are informed that his meeting with you is a courtesy call which he wishes to pay at this time because of his long association with the Bank Group. However, he may wish to discuss the status of our expanded lending program in Bangladesh under which we are committed to raise gradually the levels of IDA lending to \$600 million by FY85 provided that the Government continues to make improvements in economic performance and project implementation. We intend to report on the Government's progress under the "Performance Criteria" after the end of the first year, FY81. We expect to report that on almost all fronts the Government has met the criteria or made reasonable progress, and to recommend that the expanded target for FY82 be confirmed. (The FY81 expanded target of \$320 million was exceeded by \$14 million so the FY82 expanded target of \$380 million will now become \$366 million.) Clearly, recent events may affect the Government's ability to continue this improvement in FY82, and so we can only say that we will have to monitor the situation constantly.

2. I will be seeing Mr. Muhith at 3 p. m. on June 16 and Mr. Wiehen and I intend to host a farewell lunch with a small group of Mr. Muhith's friends on the staff.

Cleared with & cc: Mr. Wiehen

DADunn:cgs