

WORLD BANK HISTORY PROJECT

Brookings Institution

Transcript of interview with

REHMAN SOBHAN

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Dhaka, Bangladesh**

By: John Lewis, Richard Webb, Devesh Kapur

FOREWORD

The following is a transcript of an oral interview conducted by the authors of the World Bank's fiftieth anniversary history: John P. Lewis, Richard Webb and Devesh Kapur, *The World Bank: Its First Half Century*, Washington, DC: Brookings Institution Press, 1997. It is not a formal oral history, and it is not a systematic overview of the work of the person interviewed. At times the authors discussed the planned publication itself and the sources that should be consulted; at other times they talked about persons and publications extraneous to the Bank. Some interview tapes and transcripts begin and end abruptly. Nevertheless, the World Bank Group Archives believes that this transcript may be of interest to researchers and makes it available for public use.

Rehman Sobhan
November 21, 1991 - Verbatim

*[Begin Tape 1, Side A]*¹

SOBHAN: Yeah, that's right. Well, then, that was our views on that. Actually, if I could give you another lecture that I gave recently, this would really give you a current perspective on my thoughts.

LEWIS: That's what we need, yes.

SOBHAN: Well, this, of course, is the one where John Holsen and Vinod Thomas were involved in this. So that's very interesting seminar because we had a broad group of people. Now, as you can see, my . .

LEWIS: Was this in Bangladesh?

KAPUR: Was it the BIDS [*Bangladesh Institute of Development Studies*] study?

SOBHAN: Yes, the BIDS study, but we did this in collaboration with WIDA [*phonetic*] and . . .

LEWIS: I see. I'd like get a hold of a copy of that.

SOBHAN: Yes, and you know, you had Lance Taylor, Steve [*Stephen A.*] Marglin and others coming in on this, so it was quite an interesting thing. We had Mohsin Khan from the [*International Monetary*] Fund, and Vinod and Holsen, and Jean Baneth came in from Geneva.

LEWIS: You don't find your . . .

SOBHAN: Well, I'm--at the moment I'm somehow not finding this. It would be just right because it was a lecture on the whole issue of aid and sovereignty.

LEWIS: That would be great.

SOBHAN: It related to something that had really been bothering me a lot of what I saw of the government when I went back there. [pause to search for copy] Things have been somewhat chaotic in the last few days because we were really preparing ourselves for the presentations yesterday.

LEWIS: You could send it to us.

SOBHAN: Okay. Well, I may try and get this thing to the Bank. I can send it to Chris [*Christopher R. Willoughby*].

¹ Original transcript by Brookings Institution World Bank history project; original insertions are in []. Insertions added by World Bank Group Archives are in *italics* in [].

LEWIS: Send it to him. This is my Brookings address, although I am in Princeton much of the time.

SOBHAN: Yeah, but you are spending quite a bit of time at Brookings. I see.

LEWIS: That's right. They put me out to pasture in June at Princeton.

SOBHAN: I see. That's rather difficult to imagine, that you would not be haunting the place--you know, out to pasture.

LEWIS: I still have an office there, and *[inaudible]* students.

Tell us about this great study. I mean, what were sort of the parameters of it that you've just delivered.

SOBHAN: This is basically what the volumes look like. You may want to have a look at this.

LEWIS: That's a very . . .

SOBHAN: Yeah. You see, the premise of the whole exercise was that political parties come into office, you know, with baggage of rhetoric but with very little appreciation of the sort of problems which are on offer before them and some of the ways they may really get to do something about it. And so since I was in the interim government with no other mandate but to hold a free election, I thought I would really get a whole group of people to work who were willing to come and volunteer their services.

INTERRUPTION [Recording was stopped off for telephone call and apparently never turned back on, although tape continued to run to the end of Side A. Interview continues on Side B.]

SOBHAN: . . . at such and such time and permitted to go to the toilet three times a day. And these degrees of detail which now sort of go into these aid agreements are sort of mind-boggling.

And these guys have come and signed all these things. You know, "You've come with this agreement, and you have been proficient in negotiating, and you fellows are going to implement all these conditions?"

Said, "Oh, yes, sir. We certainly are going to do it. Promise you" and so forth.

And then they go off to Washington and they sign it, and it will come out in the World Bank newsletter: "Agreement for 250 million dollars" and there will be this 20 million next year. And you go back to this damned thing five years down the road, and what do you have? You know, about 5 percent of the conditions have been put into effect. Where they have been put into effect, they have been sort of distorted in their implementation.

So if the donors actually think that they can run the government of Bangladesh, it's a very serious mistake. And you're coming to the point where the distrust of the government is so great amongst the donors that they think they can take over the government, and they can take it over on paper. I mean, it isn't that you're really sending your proconsuls to come and run our projects. The projects ought to be run by us, but the agreements are all being carried out on paper.

And my view is that, you know, government has to motivate itself. It has to have the felt need for improving the performance of the economy, for taking charge of its own affairs, for setting its own agenda. I mean, no policy papers come out of the government of Bangladesh in 15 years. And that was the first time--we wanted to show that, my God, you have these guys over here who have damned good ideas about what you should really be doing with the running of this economy. I mean, you get all these guys coming in from here and there and writing these reports--we've got 1,000 reports scattered over the ministries. No one has read the damned things because the report has become an exercise in itself. There will be a consultancy report written; it will *[inaudible]* There will be a function at which the report is presented. People will have a sort of big tea or a dinner, and that is the end of it because the machinery is just not geared to that. And it has its own rhythm, its own compulsion, and until they are motivated to really do something about this, we can't live with this nonsense, you know, that you have a zero savings rate and this pathetically performing economy, and that all these sort of resources are sort of congealing into nothing. Unless you do something about this, you're not going to get anywhere. No donor is really going to make you do that because you will assimilate what they do and really go on doing your own business in whatever way you want.

LEWIS: You've just answered my second question, which was to ask you if you've ever done a counterfactual exercise on whether, if starting in 1972, there never had been such a thing as foreign aid in Bangladesh, you'd be better off.

SOBHAN: Well, you know, I think it's a counterfactual thing. I would think probably you would have been better off, but that has in any case never been on the cards because really what you are wanting to say is that you really have gotten to a point now where you're way out of line with your whole region. You're running a development budget at 100 percent aid financing, which is nonsense. And the whole system has now become counterproductive. Now you want to get down to a situation--I mean the criteria I would push is that you want to get to a point where you can frame a development budget without going to Paris and seeing what the consortium is going to commit to you. The day you can do that, you will have reached my threshold point.

Second, I would like to say is that you must be able to tell a donor that, "Look, this type of project conditionality is not on. I don't accept this. I have my own views about how I want to handle this."

And if the donor says, “Okay, then we are going to suspend these disbursements” or “We’re going to cut off these credits,” you say, “Okay, thanks a lot. I mean, we appreciate what you’ve done, but we’ll do without.”

And at the end of the day you’ll have to get your own act together in order to do all this. You have to raise savings. You have to get people to pay their taxes. You have to get people to repay their loans. And, most important, you have to reverse this time allocation: 30 percent for aid negotiations, 70 percent for post-project implementation where all the best and the brightest who spend their time shuttling between Dhaka and Washington negotiating aid. Will you get out into that damned irrigation area, and you raise the command area from 30 percent to 90 percent. You go out and see that this particular project is really training people to deliver what they were supposed to. And you have an industry, see that it’s operating at 90 percent capacity. Let’s deploy our skills in that way. I mean, if you can get that turned around, you’ll have a realistic relationship with the donors, and you will be in charge of your own agenda, and I think probably donors would be much happier in dealing with you.

LEWIS: I think so. You make quite a lot of sense this morning. I think we’d probably better run along. It’s--unless, Richard, you want to . . .

SOBHAN: Yeah, well.

WEBB: It’s a shame, really. There are so many things that I’d like to—there’s just one aspect, that maybe later on in another visit or correspondence or maybe you’ve written on the subject: there’s a kind of global disincentive, from all you say, and maybe you could handle it or find ways to handle it by giving a fixed amount of aid, allowing the government to hire the consultants that they want and so on and so on. But another aspect to all of this is the Dutch disease aspect. I don’t know whether you’ve thought about that or written about it.

SOBHAN: Well, I have, yes. Well, I see the Dutch disease actually working in two ways. One is simply the involution aspect to what is really done as a disincentive, but in the narrower sense actually of, you know, exchange rates. You know, you have a very ridiculous situation here. Two of the macroeconomic instruments for how well you’re doing are the budget balance and the foreign exchange balance of payments--and, of course, exchange rates, third.

Now, you can never have a realistic exchange rate in Bangladesh because 50 percent of your external resource gap is always externally financed. So we play these silly games with the IMF [*International Monetary Fund*], who come in and have this formula of theirs about, you know, what should be in--they say that, “Okay, it’s 35 takas to the dollar. It should really be 25.8 taka,” and so on. Now, what the hell is this supposed to mean? I don’t know. If you are an externally resource-constrained economy, the external balance is a function of aid disbursement. It’s not really a function of some equilibrating relationship between the demand and supply of foreign currency in your country. So what happens now? When does your external balance go out of joint? When you have efficient

aid disbursement and when aid is flowing, then the gap increases, and this then becomes the measure of your inefficient management, of your imbalance of payments.

So the moment this damned gap comes up, which happens--and why it has happened is that there is a decline in aid disbursements for two reasons: one, inefficient public sector project implementation; two, business recession which has been almost endemic over the course of the last decade. But now you don't import. Today no one is opening any letters of credit even though our secondary exchange market, which is now fed from the currency from the RTAs [*regional trade agreements*] as well as from our program loans, not to mention our wage-earners, no one is opening any letters of credit. So now Bangladesh is going to have a marvelously healthy balance of payments. Everyone will be patting us on the back, saying, "Ah, well, look at these guys. They've really got efficient management of their payments crisis." But just the reverse! It's the sign of a depression in your economy.

Similarly with your budget balance. Everyone gets very excited if your revenue budget is in balance, but you're running this huge aggregate public expenditure deficit because the whole thing is balanced, is financed by aid.

And here again the measure of what you are doing is a measure of efficiency of aid disbursement because the critical variable of the size of the deficit is how much money you are spending. If you spend less money, your aggregate balance naturally declines. If you are spending it all, then suddenly the balance goes up. So the World Bank was telling us, "Well, in the early '80s, your balances had got out of joint, so in the late '80s because of structural adjustment lending you have now got your balances right." All that had happened was that the economy had been going no place at all, and you are drawing entirely the wrong message about exchange rate stability and its sort of approximation to equilibrium about the correct assessment of your external balance and the correct macroeconomic assessment of your domestic balance. And these became the big issues of public debate. And we ended up by thinking we were doing well when we were doing badly.

WEBB: One more little question. In English, the word "self-reliance" is very clear and powerful. Is there an equivalent in Bengali?

SOBHAN: Yes. It's called "shonivor."

WEBB: "Shonivor." It has the same sharp meaning?

SOBHAN: Well, it's a more--it has certain cultural connotations as well, but it has got into the public idiom from the early '70s where then actually there was strong school of thought which said, "No aid in this area. We will do it ourselves." Areas exposed to famine and flood erosion took decisions at that time that, "No money will enter into this area from outside. We will solve our own problems through our own resource mobilization and our own effort." This became a political matter of political principle at various--and this acquired, I suppose, the connotation "shonivor."

WEBB: Well, you have an advantage over my country. I come from Peru, and I am always harping on the theme of self-reliance, but we don't have a word in Spanish for self-reliance! *[Laughter]*

[End of Tape 1, Side B]

[End of interview]