

WORLD BANK HISTORY PROJECT

Brookings Institution

Transcript of interview with

M. SYEDUZZAMAN

**Date: November 19, 1991
Dhaka, Bangladesh**

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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.

M. Syeduzzaman
November 19, 1991 - Verbatim

[Begin Tape 1, Side A]

SYEDUZZAMAN: . . . I have been associated with the Bank from as early as 1968 when I used to work for the Pakistan government, but I have forgotten many of these things, so unless you ask me specific questions, I would not know what to tell you.

LEWIS: Well, let start with was this '68, then, and your working with the government. What's your recollection of the role of the Bank in time of the cleavage of Pakistan, the origination of Bangladesh?

SYEDUZZAMAN: Well, in '68 I was a Deputy Secretary in the Economic Affairs Division, Pakistan, in Islamabad. And later on, in '70, I worked as Joint Secretary in the government of Pakistan, External Finance. And in both of these capacities I had to come in contact with the Bank from time to time. In the external resources division—they called it E-A-D, Economic Affairs Division, E-A-D—I used to be responsible for coordinating aid work relating to the Pakistan consortium, latterly Bank's lending program, IDA [International Development Association] lending program, I was very much a part of that.

Of course, the big thing at that time was the Tarbela dam, that project which was being packaged together. So I remember at that time there were several missions from the Bank, but I was not so much involved with the Tarbela negotiations.

But I was involved in preparation for the annual Pakistan consortium meetings. And there, of course, what mattered was what happened to the lending program, what was the rate of disbursement, how the projects were behaving, how the projects were proceeding. These were the main considerations. The policy lending had not yet come in, so it was mainly project-related activities. We used to process negotiating teams going to Washington because all the negotiations used to be in Washington. And then there used to be an Executive Director, I think it was Osman Ali who was Executive Director, and we used to be in touch with him about various policy issues that were coming to the Bank's Board [of Executive Directors]; he wanted feedback from the government. Those are the type of work that I used to . . .

LEWIS: And you were at the Finance Ministry at the . . .

SYEDUZZAMAN: In the Finance Ministry, of course, I was more associated with the [International Monetary] Fund than the Bank.

LEWIS: I see. This time that you're speaking of just now, you were then—that EAD, was that in a ministry or . . .

SYEDUZZAMAN: Yes, EAD's a ministry, it's Economic Affairs Division.

LEWIS: Of which ministry?

SYEDUZZAMAN: This was part of the President's Secretariat.

LEWIS: Okay, okay. You were there when the, in 19 . . .

SYEDUZZAMAN: I was there from '67 to '70.

LEWIS: Oh, I see. Where were you in '71?

SYEDUZZAMAN: In '71 I was Joint Secretary in the Ministry of Finance. I was promoted to Joint Secretary in 1970, so I went over to the Ministry of Finance. I stayed there until probably February or March '72 when we were all laid off because we decided to [inaudible]

LEWIS: All the Bengalis, you mean?

SYEDUZZAMAN: Right, right. Well, in the Ministry of Finance my association with the Bank was that I was on the board of directors of the IDBP, the Industrial Development Bank of Pakistan, and the PICIC [Pakistan Industrial Credit and Investment Corporation]. And they used to borrow money from the Bank, so that was my—and that was more businesslike and things were much easier than negotiating projects with the government.

KAPUR: Those were the DFIs [development finance institutions] with Bill [William] Diamond.

SYEDUZZAMAN: Pardon?

KAPUR: Bill Diamond of the Bank staff.

LEWIS: Bill Diamond was . .

SYEDUZZAMAN: Yes, Bill Diamond was—yes, Bill Diamond was working on that, that's right. And from the Bank side it was Mr. [I. Peter M.] Cargill.

LEWIS: Yes, Peter.

SYEDUZZAMAN: Then [Rudolf] Hablutzel, there was a gentleman called Hablutzel, who probably—I think he, Hablutzel, I don't know whether he's still at the Bank. Then we had a gentleman who died later on when I was in Washington, became director of the South Asia Department, Manfred Blobel. Manfred was, I think he was division director at that time, and then Mike [Michael] Wiehen, who is currently director of that, they were working on Pakistan. Mike Wiehen was the division chief in the later days of Pakistan.

Then when I came to Bangladesh, I was appointed Secretary, Ministry of Planning, and Secretary, External Resources, so these two jobs were combined. And I had very—how should I say—intimate interaction with the Bank. But at that time, you know, the

relationship between the government and the Bank was very difficult because the Bank on behalf of the donors—well, before that I think I should mention a little bit about what happened in '71.

In '71, as you know, the Bank stopped its disbursements on projects in Pakistan. And then these famous report which Bank staff had brought out, led by a young Dutch staff member [Hendrik] van der Heijden.

LEWIS: Van der Heijden.

SYEDUZZAMAN: Yeah, later on I saw him; he was with the OECD [Organization for Economic Cooperation and Development]. I met him a couple of times in Paris.

That report really brought out what was happening in East Pakistan in those days, the atrocities and the complete cessation of all economic and business activities, all these. And interestingly—you know, I was at that time, as I said, I was in the ministry of finance, I was an alternate governor of the Fund. In that capacity I had to attend the 1971 annual meetings in Washington.

Well, I should also probably mention that my first annual meeting was 1970 Copenhagen meeting when Mr. [Robert S.] McNamara received a lot of, you know, eggs and so on.

LEWIS: From the left, yes.

SYEDUZZAMAN: Yes, from the left, so I remember that distinctly. That's also the first time I saw Mr. McNamara, and I met him as part of the Pakistan delegation.

Anyway, at the '71 annual meetings, the Pakistan delegation was led by a man called S. U. Durrani. He was the governor of the central bank. We went and saw Mr. McNamara. And Durrani was, of course, explaining that things were going all right in Pakistan and in East Pakistan.

And I remember one particular incident that—during our meeting with Mr. McNamara, Durrani was saying, “Oh, Mr. President, you don't worry. Things are going all right; economic activities have revived. We're trying to give full support to the jute trade; we're flying cash to the various centers of trading for buying of jute so that farmers don't suffer; and we are giving police escorts to all these special teams who are carrying gas because we want really to help the farmers.”

And Mr. McNamara grimly said, “Mr. Governor, in a situation where you have to fly money out in a helicopter with a police escort is certainly not a normal situation.” That stopped all further discussions.

So that was . .

LEWIS: He himself was—wasn't he perceived as being quite sympathetic to the east, to Bangladesh?

SYEDUZZAMAN: Well, I could not decipher that, but obviously he was in favor of stability and law and order and equity and justice and an equitable and just response to the political aspirations of the people of East Pakistan who were--of course, by that time it was too late. It was September, and the—it was--the war of liberation had already started in full fury and there was already the point of no return.

KAPUR: The report which you mentioned, the van der Heijden, I guess it was leaked out. This was in June of '71 . .

SYEDUZZAMAN: You're right. June, July it was leaked out, that's right.

KAPUR: Right. Do you remember the reactions from government?

SYEDUZZAMAN: Oh, the reactions in the Pakistan government, the Pakistan government people, the senior officials, they were completely—what should I say—they were furious. They were very angry, very unhappy, and I think the government of Pakistan suggested that van der Heijden should be removed from the Bank or something like that.

And then I also remember that during the annual meetings in 1971 there was a special meeting of donors for Pakistan called to consider Pakistan's request for rescheduling some of its debts. I think that was the first time that Pakistan—Pakistan was in very bad shape as far as balance of payments was concerned. And there was a special meeting requesting for rescheduling some of these debt obligations. So that's all I remember from the '71 annual meetings.

KAPUR: The official reason for the Bank suspending further loans to Pakistan was debt, because of debt repayment problems.

SYEDUZZAMAN: I don't think so. I think it was—in East Pakistan it was obviously the conditions did not permit smooth implementation of projects and the regular disbursement of funds. That was the reason.

KAPUR: Right, but they stopped also to West Pakistan.

SYEDUZZAMAN: But that was—well, that was probably a little later. That was probably a little later. Whether that was related to debt, that I don't at this stage recall fully.

LEWIS: At minimum if they suspended East Pakistan because of turbulence . .

SYEDUZZAMAN: Yeah.

LEWIS: . . . and they thought there was a certain equity of being, arising between East and West Pakistan, they would not have continued to lend to the West, I should think. I mean, that would be a tilt to the . . .

My impression at the time, of being just recently associated with the U.S. Government, was that when the U.S. tilted, the [Henry A.] Kissinger- [Richard M.] Nixon tilt towards Pakistan at the end of '71 was very much in contrast to the posture of the Bank under McNamara, that he parted company with the U.S. Administration.

SYEDUZZAMAN: Well, I must say that at that time, it was the later months of 1971, I was not—I mean, this should not go into the record—though I was in the government of Pakistan I was in a very key position. Joint Secretary, External Finance, was the linchpin regarding management of the foreign exchange budget, relationship with the donors, relationship with the Fund and so on, but I could feel that I was being left out of some very important discussions, like I was supposed to monitor day to day the foreign exchange reserves. Then from a point of time the gold reserves were removed, first they were brought to Islamabad, then they were shifted to China by the Pakistan government. I was kept completely out of that. So at that time there were many occasions when I was not in the--privy to the discussions the government had. But then in 19--sorry.

LEWIS: I was just going to pick up—you had led us to your position as Secretary here at the beginning.

SYEDUZZAMAN: Yeah. When I came to Bangladesh from Pakistan it was early '73, January '73. I was stuck up for one full year in Pakistan. The whole, throughout '72 I was in Pakistan, laid off and living on small doles from the Pakistan government. Then I escaped with my family through Kabul, through the tribal areas with the help of tribal people. They brought us across the border, and then we came to Kabul. We stayed there for two weeks, and then we came to Delhi, from Delhi we came here.

So when I reached Dhaka I was appointed Secretary, Ministry of Planning, and concurrently Secretary, External Affairs Division. And that was the main link with the donors; Secretary, External Resources Division, was the main link with the donors.

At that time the relationship between the Bangladesh government and the donors was a bit difficult. Mr. McNamara made a visit—that was before I reached Bangladesh—and the main thing was the debts. Donors were suggesting that Bangladesh should take over the liabilities for debts, foreign debts, foreign loans, which were spent in East Pakistan.

So we had the first aid group meeting in, I think it was March of 1973, two months after my arrival. And that meeting—I remember distinctly because I was handling that meeting myself—that the main issue was whether Bangladesh should agree to accept the liability for foreign loans taken by Pakistan government and spent in East Pakistan. And obviously the position of the Bangladesh government was that we were not willing to take this; this was the legal liability of the government of Pakistan. And the donors were

indicating that unless the government of Bangladesh agreed on this, there would be difficulty in pledging new aid for Bangladesh, which Bangladesh badly needed.

So moral number two was: how would the meeting be conducted. The World Bank insisted that the meeting should be chaired by the Bank. Peter Cargill was the person; he wanted to preside. And the Bangladesh government's position was that no, it is the government who should preside over the meeting. And ultimately government won that round, and the Bangladesh government delegate, Nurul Islam, presided over that meeting. And that was the first meeting of the Bangladesh aid.

But the message came quite clear in that meeting, though there were some pledges of humanitarian aid, food aid and so on, but development aid, the donors made it quite clear that they won't be able to move until there was a decision on the debt obligations. And this was widely discussed within the government, and there was no—there was no two opinions. The government was pretty firm that these loans legally were incurred by the Pakistan government, so they're legally liable.

In the mean time Pakistan had also suspended payment of debts to the foreign donors, to the lenders . .

[Interruption]

SYEDUZZAMAN: . . this debt obligation, the Pakistan government had also suspended payment of debt because their balance of payments position was also very precarious. And I remember that the Pakistan government had obtained the time from the donors for, I think, a period of moratorium up to 30th of June 1974. And the Bank was desperately trying on behalf of the donors to come to an agreement with the Bangladesh government.

Now, at that stage I was deeply involved in these whole process, and I was the Bangladesh government's official negotiator for rescheduling of, discussion on debts, foreign debts. And that exercise in which I had very close association with the Bank—Mr. Bill Diamond, he had by that time become the country director; there was a division chief called David Dunn; and there was a deputy director of the legal department, I think his name was Douglas, Douglas Fontein, a Dutchman. And I had to discuss with them a number of times.

LEWIS: Just Faaland didn't get involved in that?

SYEDUZZAMAN: Just Faaland was the Res Rep [resident representative] here of the Bank. He was, of course, carrying all these messages between the government and the Bank and through the Bank with the donors.

Now how the thing got resolved, it is very interesting. It's a long process, but I can tell you briefly. At that time Sheik Mujibur Rahman, he was our prime minister. He was a charismatic leader, the father of the nation, and we were all—at that time, the new country, we were, everybody was looking up to Sheik Mujibur Rahman, the great leader,

called him “Bangabandhu,” father of nation. And when these things were getting really a little bitter, one day we had a discussion in the presence of the prime minister. And there was—the Deputy Chairman of the Planning Commission, Nurul Islam, was there, and the Finance Minister, Mr. Tajuddin Ahmed—he’s now dead; he was later on killed in the jail—he was there; and some other officers; the Ministry of Foreign Affairs sent someone. And then we explained that, “This is the legal situation. These loans were legally incurred by the Pakistan government. It’s true some of these loans were spent in what was then East Pakistan, now Bangladesh but legally we cannot take these responsibilities at all because we don’t know how these loans were spent. Many of them are spent by central government agencies; we don’t have the accounts,” and so on. Now, at the same time it became quite clear that Bangladesh would need to re-establish its relationship with the donors bilaterally. We preferred to deal with the problem bilaterally. Now, I remember—it was a dramatic thing—we were coming down the stairs of the prime minister’s house, and as he was smoking his pipe he suddenly asked, “Well, these projects that were built up, that were built with these foreign loans, are they still in Bangladesh? Can you show me one or two of them? If they are there, then I will accept the liability. If they’re not there, I have nothing to do with them.” So we got the policy guideline from that.

And then we built up our case. We went into the details, loan by loan. And then we formulated our position, official position, with the approval of the government: “Bangladesh government will agree to take over the liabilities of those projects which are visibly located in Bangladesh.”

LEWIS: No program loans?

SYEDUZZAMAN: No program loans. I’ll come to you—with that I had problems, program loans. But my point was—on this I was able to carry the government with me—that program loans were made available to individual importers who had paid in local currency, these were their obligations. The foreign exchange liability remained with the Pakistan government. As far as East Pakistan is concerned, they had absolutely no liabilities left unfulfilled. It was like buying cash foreign exchange from the central bank. They had bought the foreign exchange proceeds of the foreign loans with local currency and they had absolutely no liability. So the question of accepting the liabilities for program loans did not arise at all. And I was able to convince the Bank—first I was able to convince my government and later on the Bank representatives.

Okay, now having accepted that, then we prepared our negotiating position like that, like this: a particular project is maybe located, visibly located in Bangladesh; let’s say a huge jute mill which was built up with IDA loans or textile mill. But if during the war of liberation the mill was damaged, then we would have to deduct from the loan the value for the damages. This is number one. And then loan by loan we had to go back, up to which installment the loans were really paid by the projects, though they were not probably repaid by the Pakistan government because the lending was for a smaller period, IDA for fifty years, maybe they would lend to the project, to the province for twenty-five years.

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So we had paid, though Bank group said, “No, we have not received those installments.”

We said, “We’re not concerned with that. The people in East Pakistan, the projects in East Pakistan, they have repaid their obligations.” So we were able to negotiate project by project and to reduce our liabilities.

And then I remember one interesting case, an IDA credit which was given to the Agricultural Development Bank of Pakistan. And part of that loan, credit, was reallocated to East Pakistan Agricultural Development Bank. And that loan was used for buying mostly tractors and tillers, equipment which was still—some of the equipment was still in possession of farmers and some tea gardens and sugar cane plantations and so on. So there was a problem regarding that, but I maintained my point that these, the Agricultural Development Bank in East Pakistan, they had used this money as a program loan. The partakers, the users, they had repaid their obligations by paying in local currency. So there’s no more obligation left for East Pakistan. Ultimately I was able to convince that also.

So taking the program loans and the project loans separately and then taking credit for damages done during the war of liberation, the—originally the figure that the donors were holding before us was twelve hundred million dollars, that East Pakistan was liable for twelve hundred million dollars out of one loan.

KAPUR: That is in ’73 dollars?

SYEDUZZAMAN: That is in ‘73 dollars, yes. Well, these were actually the amounts mentioned in the loan agreements.

LEWIS: Cumulative, yeah.

SYEDUZZAMAN: Yes. Now, after these negotiations, getting rid of the program loans, getting rid of damaged projects which were not visible, getting rid of partly damaged projects, ultimately we came down to a figure of four hundred million dollars.

LEWIS: You did very well.

SYEDUZZAMAN: From twelve hundred million dollars to—the interesting part is still I have not told you—to four hundred million dollars.

Now, at that time—well, then we negotiated. Our position was that we’ll negotiate bilaterally; we’ll not negotiate multilaterally with the Bank. With the Bank we’ll negotiate only the IDA credits or IBRD [International Bank for Reconstruction and Development] loans. So we negotiated one by one.

I remember those were very, very hectic days for me. Every day there was some meeting. The Bank organized two discussion meetings; I think one was in Paris, one was in London. I had to--those were specifically for the Bank's credit.

Now, when we came to—well, in the case of Bank also, I think the Bank made a very special dispensation because we agreed that we shall accept these loans only on DSA [debt service agreement] terms, on the softest terms available from any bilateral donor, those are the DSA terms.

LEWIS: [inaudible]

SYEDUZZAMAN: So bilaterally the donors agreed to that, that we would repay, we would assume the obligations on DSA terms. But in the case of the Bank, I think there was a small amount of IBRD loan you still find in the documents; those are the IBRD loans. And there the Bank made a special dispensation because Bangladesh was not eligible for IBRD loans in '74. They made a special dispensation so we could take over the liabilities of that.

And at that time Just Faaland made a very interesting suggestion to me one day. He said, "Okay, now you have come to this situation." Well, we had more or less cleared with all the bilateral donors except Italy. Italy, we had not yet agreed, and I don't think Italy, the last agreement was signed until 1986. But in the case of Italy it was only [inaudible] . .

LEWIS: That's right.

SYEDUZZAMAN: . . and a whole series of problems, insurance and repayment, all these, and differences of small amounts and so on.

Anyway, Just Faaland told me that, "Look,"—he unofficially made this suggestion—"we have now come to this figure, four hundred million dollars, and the DSA terms have an 84 percent grant element, so in effect your debt is sixteen million dollars for every hundred million dollars. Why don't you tell the donors that, 'Give us a consolidated loan of sixty-four million dollars. We'll repay you with that; we'll start from the scratch with a loan of sixty-four million dollars?'" I tried it with a couple of donors. They were not at all willing to take this up. But that was a very interesting suggestion. At that time Bangladesh's balance of payments situation, foreign exchange situation, was very difficult, and it would have made good sense. But it made sense only on the books of economics and accounts, but in real life nobody agreed to touch this, the so-called grant element and so on.

LEWIS: Help me to understand. He suggested that you get a new loan for the grant element of your, that term . .

SYEDUZZAMAN: Yes, you get a loan from somewhere, sixty-four million dollars . .

LEWIS: And then wipe out the whole thing.

SYEDUZZAMAN: . . . then you pay the current, this present value of this four hundred million dollars with 84 percent grant element, which is sixteen percent, which is sixty-four.

LEWIS: You should have gotten Norway to do that for you.

SYEDUZZAMAN: I don't think Norway was—were they so rich at that time?

LEWIS: Well, no, they didn't have their oil in at that time.

SYEDUZZAMAN: So it would have been very interesting to be able to do that.

LEWIS: Now, in this—I remember—I reviewed the Bank's history in Pakistan at one time a few years ago, and this was a, as you say, also very troubled issue for them for a long time, the Bank and Pakistan. This was a—you talk about negotiation between you and the donors. The assumption is that whatever you get out of would be . . .

SYEDUZZAMAN: Acceptable to Pakistan. Well, you know the Bank was mediating. They were traveling back and forth between Pakistan and Bangladesh.

And—oh, one more thing. We had agreed that we would take over the liabilities worked out like this as on July 1, 1974. So until June 30, 1973, all liabilities were with the Pakistan government. We did not agree to pick up the tab from the 16th of December '71. We made it quite clear that we will accept it only from the first of July 1974.

Anyway, these were very exciting days. Now as we cleared one after another bilateral negotiations, we were entering into fresh bilateral agreements with the donors. And we also resumed our relationship with IDA. In December '73 IDA agreed to provide the first program loan, program credit, for Bangladesh. I think it was fifty million dollars. I went for negotiating that first credit.

And then, of course, the project lending started, because in the later days, it was the end of the Pakistan period, the Bank had undertaken a nine-volume land and water use study for Bangladesh. Now in that study a number of projects were identified for long-term investment in the agriculture sector, in water and agriculture sector in Bangladesh: flood control, drainage, irrigation, all of these. And we started negotiation with the Bank on the basis of that document. The projects that arrived [inaudible] considered by the Bangladesh Planning Commission was review, and ultimately, I think, the Planning Commission, between the Planning Commission and the IDA, we agreed on eleven major projects—not major projects, eleven projects which were based on a new philosophy, because in Pakistan days, the Bank had gone for big projects: dams, big irrigation projects, large embankment projects, for flood control, drainage and irrigation. Now for the first time there was a change in the perspective and in perception, and the government and the IDA agreed that henceforth lending in the water sector in the agricultural sector should be for small irrigation projects: surface water, pumps, shallow or mid-depth

specialty wells, and then deeper wells. No more of those big irrigation projects and dams and embankments, so that was one interesting thing I remember.

Now what happened in the course of all these negotiations—I think the last was with the U.S. because U.S. law, I think, did not permit writing off loan of—oh, this is--now I remember. So what we did with the U.S., we agreed that, “Yes, well, if your law does not permit writing, what you’ll do, you’ll accept the loan figures arrived at on that basis but then you change the”—was it to the U.S. or the Bank?—“you change the maturity of the loan so that in effect we get a grant element [inaudible] purpose.”

LEWIS: The U.S.—I think it must have been with the Bank because the U.S. had a grant element of . .

SYEDUZZAMAN: Yeah, I agree, I think, yes, you are right. That’s why our loan, the initial loan from the Bank was for a very long period so that the grant element was brought down to the debt terms, to 84 percent. So that was an unusual measure taken by the Bank at that time.

So that’s how we resumed our relationship with the Bank.

LEWIS: Fascinating story.

SYEDUZZAMAN: And then also gradually we . .

LEWIS: How long did you continue as the Secretary for aid coordination?

SYEDUZZAMAN: Well, I continued until end of ’75, throughout the period of the first government. And in February ’76 I was shifted by the new government as Secretary for Finance when Ziaur Rahman became president. He brought me--much against my wishes--as Secretary, Finance. I was there for two years; then I went to the Bank as Alternate ED [Executive Director].

LEWIS: Right. How long were you there as the Alternate ED?

SYEDUZZAMAN: I was there five years.

LEWIS: Five years.

SYEDUZZAMAN: I came back in October of ’82. I joined the Bank in July ’77, came back October ’82.

The other thing that I remember from that period—well, apart from negotiations—in those days we, my office, the External Resources, ERD, External Resources Division, used to be responsible for all aid negotiations, also project by project negotiations with the Bank. So I had to visit Washington quite frequently, several times a year, in connection with groups and negotiations.

LEWIS: Were you succeeded by Muhith in that job, A.M.A. Muhith?

SYEDUZZAMAN: Yes, yes, Muhith--no, I was succeeded by a gentlemen called Mister Mahmood, Kafiluddin Mahmood, for about a year and a half. And then when I left for Washington, roughly the same time Muhith came and take over the job of External Resources Division.

Well, the other thing that I remember—well, these negotiations of the program loans, of course, were dealt. The next thing was, the event was the organization of the Bangladesh aid group. That was in September '74. In '74 Bangladesh faced a very serious crisis. We had very bad floods which destroyed part of the summer crop and the jute crop. We had a severe explosion in our only ongoing urea fertilizer factory, production was suspended. There was a succession of bad crops. Food stock was very low, and there was acute scarcity of food grains in the northern part in the lean period. And there was, of course, as you probably know, there were deaths due to starvation. There has been a number of figures mentioned and there has been exaggeration, but it was quite serious. A large number of people died of starvation in the final quarter of 1974 in the northern part of Bangladesh. But in September '74 when we desperately needed to import food grains, our foreign exchange situation was very, very low. The budget situation was [inaudible] also, very grim. And Bangladesh faced the most difficult situation at that time.

And we in the Planning Commission—Nurul Islam was still there; he was my boss—we had, putting our heads together how to get over this. And obviously the conclusion that we came was that we needed foreign aid, we needed external assistance, external actors. And the Bank was not in a position to bring out quick disbursing cash money. It was not—we already had the second import program credit under negotiation—well, I think we had already, yeah, we had already signed, and that was being used but that was a small amount again, 50 or 55 million dollars. Now what we needed was immediate cash for import of food grains, immediate cash for import of raw materials, spare parts for our industries. And for food, I remember, Soviet Russia, they were very helpful to us at that time. I remember the Soviet ambassador came to see me, and he told me that he had got instructions from Moscow to divert two shiploads of food, which was going somewhere else, to divert from the middle of the Indian Ocean and to send them to Chittagong. That was a great help.

We were negotiating a PL-480 [U.S. Public Law 480] agreement with the U.S government. I was negotiating with the U.S. government. They did not yet have an AID [U.S. Agency for International Development] mission here. They had an office of AID coordinator, a gentlemen called Tony [Anthony M.] Schwarzwaldner was in charge of the office here.

LEWIS: Yes.

SYEDUZZAMAN: And later on—I remember the--I don't remember the man who came later on. I think it was--the first ambassador was Eugene, I think it was [Davis]

Eugene Boster, Eugene Boster or Ed [Edward E.] Masters. Anyway I forgotten. I'm not sure.

LEWIS: Schwarzwaldler was here for some time, I think.

SYEDUZZAMAN: Yes, but he was in charge of the AID coordination office. The first U.S. ambassador was, I think it was Ed Masters, who came from Indonesia, I think, or Eugene Boster. I think it was Ed Masters. Or maybe there was not yet an ambassador because Tony Schwarzwaldler was [inaudible]

And there we came across this difficulty because we were also negotiating export of jute goods to Cuba.

LEWIS: Ah, yes.

SYEDUZZAMAN: And the Americans, they were very particular that those shipments must be out of the port before American food grain ships could come into Chittagong. Well, these things are fully documented elsewhere.

LEWIS: Yes, I'm aware of this.

SYEDUZZAMAN: You'll probably find them in the U.S., including the *Foreign Affairs* journal and other places. And that delayed shipment of food under PL-480. Well, this has been . .

LEWIS: It was a very costly delay, I think.

SYEDUZZAMAN: It was a costly delay, though it has been contradicted by the U.S. government that there's nothing like political punishment for Bangladesh, but most people in the country, they perceived that particular event as a reflection of U.S. punishing Bangladesh for so many things. Henry Kissinger was still there, the Secretary of State and so on; he was not particularly favorably disposed toward Bangladesh and so on.

Anyway, now, well, that was for a short period, short term thing, but looking at the medium term we still felt that unless there was an inflow of foreign capital it would be very difficult for us to continue the economic activities at the level we wanted to. We could probably—we could probably carry on economic activity at a much lower level, and that was, that was a very critical time. So the question was should we request the donors to come to our aid? If so, what should be the mechanism? And the mechanism that we agreed within the government was that we should go according to the format which India and Pakistan were following, which is the aid consortium meeting.

LEWIS: Chaired by the Bank, huh?

SYEDUZZAMAN: Chaired by the Bank, yes. And somehow—I remember within the government when we were debating this we were allergic to the term “consortium” because it smacked of the Pakistan consortium, it smacked of the colonial period arrangements for some countries. So we decided—at my suggestion—we agreed to call it “Bangladesh aid group” not the “Bangladesh consortium.”

And at that time we had sent an aide memoire to the bilateral donors and also to the--we sent a message to the Bank, saying that we would—well, we sent an aide memoire to the Bank also, saying that we worked out a medium-term scenario of our balance of payments situation, and we gave it to the Bank. And the Bank response was that, “Well, the Bank’s mechanism does not permit any short-term, quick disbursing funds to be made available to the government.” The Bank was willing to organize a meeting for the aid donors, and then the Bank would have to prepare some documentation, and they asked the Bangladesh government also to place our requirements in the standard format of balance of payments analyses, the scenario for the next eighteen months and so on.

We did all these. And the first aid group meeting was in October 1974, held in Paris, chaired by the Bank. And we got—I think we got pledges, I don’t remember now what was the figure; 800 million dollars or something--pledges for food aid, commodity aid, [inaudible] program aid, and also project aid.

And then by the end of ’74, the beginning of ’75—this was October ’74—end of ’74, beginning of ’75, things were turning up for the better. The winter crop was good; the government had handled the post-crisis situation in the northern part of the country quite well; the winter crop was coming out quite well; there was a downward trend in the price level. And we agreed with the Fund at that time to enter into a standby arrangement because the exchange rate had become unrealistic. We started parallel with the Indian rupee, 7.5 taka per dollar. And that was obviously unsustainable because we had very high levels of inflation. In ’72-’73 I think it was—in ’72 I think it was 35 percent, in ’73 it was 40 percent, in ’74 something like 80 percent.

So then we had--in early May ’75 we went for a de-monitization exercise, we brought down the circulation and then price level, effect on the price level. And there was restraint on credit to the government from the banking system because government had nationalized a large part of the organized industrial sector, they were dependent on the commercial banks, which were also nationalized. And government itself, because the revenue collection had not yet been properly organized, government also had to borrow from the central banks. All this combined, and the structural difficulties, transportation difficulties, international inflation, price of oil, price of food grain, price of cotton, iron and steel, fertilizer, everything [inaudible] To correct for that we had to . .

[End Tape 1]

[Begin Tape 2, Side 1]

SYEDUZZAMAN: . . we entered the standby agreement with the Fund. The major element was the depreciation of the taka by 58 percent, from 7.5 taka to the dollar we

went to 12.5 taka to the dollar. The Bank joined in because in the scenario that we had projected for our balance of payment for the coming year at the Paris aid group meeting in which we [inaudible] certain [inaudible] resources from the Fund and the Bank agreed to give us a third program credit for one hundred million dollars.

So I also negotiated that credit, and surprisingly that negotiation took place in Dhaka, across a table like this without an exchange of papers, because the basic understanding was already there. The main thing which the Bank wanted to see--IDA wanted to see--was adjustment of the exchange rate and this bringing down the money supply and so on as suggested by the Fund. So Bank was really looking up to the Fund for working out the arrangements under the standby, and Bank agreed to provide a hundred million dollar third program credit. So that negotiation was in Dhaka, and across the board without any lawyers, without formal meetings between the two sides. I remember David Dunn and I, in the course of our discussions, agreed that the IDA credit would be taken to the Board and it was done in due course. We got that money.

LEWIS: That was '74?

SYEDUZZAMAN: That was '75.

LEWIS: '75, right, right.

SYEDUZZAMAN: Now in May '75 we did this devaluation.

LEWIS: Yes, yes, okay.

SYEDUZZAMAN: And then the prime minister, he had made an announcement, national policy of government, amidst a Cabinet division, designating population as the number one problem of Bangladesh. So we had several, you know, favorable factors. One was the crop turned out to be good; the money supply had slowed down; the price level was moving downwards. The government's—the policy initiatives were perceived to be right by the economists at home and also the donors, particularly emphasis on population planning and agriculture sector.

And we had the second aid group meeting within the financial year. That was May of '75—one was October '74, the other was May '75--so two aid group meetings within one year. That was also an exception. And we had the one—the meeting was an overall success. I think we got pledge of close to 150 million dollars, Paris aid group meeting. So that was the second meeting.

Then—yeah, then August '75 we had the change of the government.

LEWIS: He was assassinated.

SYEDUZZAMAN: Yes, the prime minister, as you know, was assassinated by a faction of the army. That was a very sad day for Bangladesh because--well, it's a sad and long story; I don't want to go into that.

Then the new government came into power, and there was some change in policy but change only in—what should I say--extent of changes not the direction. For example, public and private investment, which was a low ceiling of only two point five million taka was set by the government in 1972, that was already raised to thirty million taka by the time the government had fallen. When the new government came into power they raised it to a hundred million taka, [inaudible] taka. That was one.

The other was accelerating the process of disinvestment--not denationalization. As you remember, after the independence of Bangladesh, government had nationalized the jute sector, the textile sector and the sugar sector. And then a very large number of small and medium-sized industrial units were abandoned by non-local people, mostly Pakistanis, so they had migrated to Pakistan. Now these industries and units, these were lying here so government had to by force take over those units and they are being run by [inaudible] appointees. And the government decided—even during the secretive government in those days—the government decided that these should be gradually sold out in small units. So when the new government came in they accelerated that process. And the government also announced that much better opportunity would be provided to the private sector to participate in economic activities. So the ceiling for private investment was raised, denationalization was accelerated. Other than that I think the policies remained more or less the same.

At that time the President, President Ziaur Rahman, he had talked of denationalizing the jute mills and the textile mills but he never quite gathered the courage, politically, to really undertake that.

At that time the relationship between the Bank and the government improved significantly because Bank found these policies more acceptable than what the previous government was following.

So this was '75, '76. And then '77--what happened between those, '76 and '77, in our relationship with the Bank? Well, we had these annual aid group meetings every year. The system was developed. We had a meeting in '76; we had a meeting in '77; every year. And until I retired from the government—I left the government in '87—I had the unique honor and privilege of attending all the meetings of the Bangladesh aid group, fourteen or fifteen ultimately. That was unique.

KAPUR: One aside: when you were Alternate ED, how does the--on policy issues, when you say [inaudible] the Indian EDs or the Indian representative as the ED for that, Bangladesh is the Alternate, on the matter of policy issue within the Bank has it been ever a case that there has been differences of opinion and, if so, how were they resolved?

SYEDUZZAMAN: No. There was no difference—you mean between the ED and the Alternate ED?

KAPUR: Yes [inaudible]

SYEDUZZAMAN: No. There was never any occasion on which the Bangladesh Government and the India Government would have to take different positions. We had Bangladesh, India, Sri Lanka, and later on came Bhutan. So I don't remember any occasion where Bangladesh had to take a different position than India. I don't remember a single, particularly on the operational side. In fact, we are competing now for IDA resources, Bangladesh, India, Sri Lanka.

About Bank's policy issues, I don't remember. Like, I think—let's see. Membership of the ICSID [International Center for the Settlement of Investment Disputes]: Bangladesh became a member of the ICSID; I think at that time India had not yet become a member. Bangladesh became a member of IFC [International Finance Corporation]; I don't remember whether India had become already a member at that time--I think India had already become in IFC.

The only difference that arose which I remember—but that was when I was no longer ED but was in the government—that was about becoming member of the MIGA [Multilateral Investment Guarantee Agency]. We wanted to become a member of the MIGA; government of India, they decided not to become a member of MIGA. They had good points, and Bangladesh government also—because Bangladesh government was very keen on attracting foreign investment, and Indian policy at that time was not so active. So that was one point of departure I remember.

Other than that, on policy issues Indian ED was the most vocal and respected in the Board about representing the point of view of the low income countries, developing countries. So there we always had a very fine—I had the pleasure of working with very fine EDs.

I worked with S. R. Sen; I'm sure you know him. He's coming for a visit next month.

LEWIS: Is he?

SYEDUZZAMAN: Yeah. He's in Delhi right now.

LEWIS: Yes, we were just there. I must admit we didn't see him. Please give him my regards.

SYEDUZZAMAN: Sure, sure.

Then [M.] Narasimhan, I worked with Narasimhan, whom I sure you know. He was Governor of the Reserve Bank and the ADB also.

Then I had a gentleman called H. N. Ray, former Secretary to the government of India.

So I had worked with three EDs. I had no problem. I don't remember any official when we had . . .

Well, there was the--I must, of course, mention, you know, these water disputes between India and Pakistan and later on between India and Bangladesh. I remember once or twice--there was a case, a case of an irrigation project on which--an irrigation project involving a river which originated in India. And I think India government had a point of view that this project needs to be looked at fresh, what in fact it has done, inter-riparian water flows and so on. But it never really came to any serious difference of opinion, taking extreme positions.

And then about the eastern, the Ganges, sharing of Ganges water. The Bank had offered several times to work out some investment package which would benefit the upper riparian and the lower riparian because of basically what happened to the Ganges water, decreasing supplies and increasing demand on other side. The Bank had suggested some technical work, to be followed by investment programs. On that Bangladesh was always open. Government of India was not very keen to follow that option, I remember. But then it never gave rise to any bitterness in the office of the ED or in the relationship between the External Resources Division and the DEA [Department of Economic Affairs, Ministry of Finance] in Delhi because that was an ongoing problem between India and Bangladesh being dealt in a separate forum, the joint U.S. commission [Indo-Bangladesh Joint Rivers Commission] that was going on from 1974. So that is it.

LEWIS: The waters, the division of waters you mean was being dealt with in the Joint Commission?

SYEDUZZAMAN: Yes, sharing the Ganges water.

LEWIS: That's interesting. I didn't know about that.

SYEDUZZAMAN: Oh, in 1974 when Sheikh Mujibur was still the prime minister, between Bangabandhu and Mrs. [Indira] Gandhi there was an agreement about sharing of waters.

LEWIS: Yes, yes.

SYEDUZZAMAN: Yes. And that was supposed to be followed up by additional work for augmenting prices and supplies. And then that agreement was supposed to go up to a certain period. So when the next government came, the position, the government of General Ziaur Rahman, that agreement was, I think, extended. And then the technical work continued, but the technical experts on the two sides, on the joint U.S. commission--the joint U.S. commission was set up between the India government and the Bangladesh government, consisting of experts. So the technical experts to the Joint River

Commission, they did not see eye to eye. So that dispute continues even today, what is going to happen to the . .

LEWIS: So the Joint Commission was between India and Bangladesh.

SYEDUZZAMAN: No, it's a separate body known as Joint Rivers Commission. There are some staff members always working on it, and then every six months I think there's a meeting, alternately in Delhi and Dhaka. They're still working on this.

LEWIS: The Bank hasn't, as far as you know, pressed very hard on that subject. They've offered, but that's all.

SYEDUZZAMAN: Yes, that's all. There's no agreement between the countries to go in for this, and Bank would not come in unless the two governments agreed and jointly requested the Bank that, "Yes, here we are. We are willing to accept your technical support followed by investment program." In general in this direction, there was reservation on the side of India. That's it.

LEWIS: This has been a terrific account of the long relationship going to--just a fine time trace of . .

SYEDUZZAMAN: Well recalling, I find it's very--it has been a good experience.

When I came to the Bank in 1977 that was the—what should I say—mature McNamara period. The two things that McNamara used to push, one is, in quantitative terms, doubling the Bank's lending program every five years. The other one, of course, was the follow up of his famous Nairobi speech that the development strategies of the '50s and the '60s were not taking us anywhere as far as reduction of poverty was concerned so the Bank's new style projects, attention to the small farmers, rural development projects, those things were on the cards.

And later on I also had the privilege of watching the early part of [Alden W.] Clausen, who had come in as the new President of the Bank and a different perception. I remember that during Clausen's period what mainly happened—of course, Clausen's arrival at the Bank was more or less just a year before the debt crisis started. So Clausen brought in a lot of innovations in what we call financial engineering, this ways of raising resources for the Bank, this swap arrangement, perpetual note, then loan A, B loan, guaranteeing the later maturities to the commercial banks, various ways of making resources available from the commercial market and the Bank to the debt-ridden countries. I remember that was the main thing during Clausen's days.

But McNamara days were really very inspiring. I recall these discussions in the Board, his leadership in the Board. And it was quite clear that though the Bank's major shareholders were really articulating the aid policies, [inaudible] institutions, even then, but during McNamara's days we could feel that McNamara, because of his personality and because of his contacts, he was in a position to really guide the major donors: "This

is how you should look at aid policy.” Though in theory it is the shareholders guiding the Bank president, but in effect we could see that it was McNamara who was guiding the donors.

And I remember one incident during McNamara’s days which was very interesting. You know, when the Bank went into Vietnam with the lending program and I think certain undertaking had to be given to the U.S. government. Clarence Long, he was chairman of the [U.S. House of Representatives] Foreign Operations Committee, and McNamara had given a letter to Clarence Long promising certain things on behalf of the Bank which the Executive Directors did not like. And that was the first time I remember the Executive Directors--some of the Executive Directors--were furious at McNamara for having done that. I remember particularly a couple of Executive Directors from the ASEAN region because Bank was opening up to Vietnam without fully consulting the Executive Directors and after giving certain undertakings. I’ll try to recollect it, what that undertaking was, that the Bank would not do certain things or . .

LEWIS: He said the Bank wasn’t going to loan to Vietnam. They say now that he wasn’t going to anyway, but . .

[Interruption]

SYEDUZZAMAN: “. . . that even a man like you could sleep.” That I remember.

Then briefly the Clausen period, I said.

Then came the period of Conable, Barber Conable. I was still a minister in the government, so I had occasion to meet with him at Annual Meetings. And that period I remember that he came in the Bank, reorganization in the Bank which gave the Bank no-- in my view. And then his attitude towards the social sectors, which was very pronounced: population, education, environment, and safe motherhood.

And then, of course, I remember the period of structural adjustment loan, the genesis of the structural adjustment loan in the Bank in ’79-’80. Mahbub ul-Haq and Ernie [Ernest] Stern, they were working it out after the Belgrade meeting of the Board of Governors. That was another incident which I remember was really very interesting.

And then the development of the policy framework paper concept for aiding the low income countries, hand in hand with the Fund, and then bringing in the Structural Adjustment Facility, SAF and ESAF [Enhanced Structural Adjustment Facility].

So many things. Well, I could go on speaking for hours.

LEWIS: I can believe it.

SYEDUZZAMAN: The Bank's--the "concord" meeting in '81, I was part of the Bangladesh delegation, the Bank's position on that. McNamara's personnel diplomacy in that context.

Maybe we have to talk another day if you want.

LEWIS: That would be wonderful. We have a rather tight . .

SYEDUZZAMAN: If you have any time, please let me know. I'll be . .

[End of Tape 1, Side B]

[End of interview]