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REPAC - Research Projects Approval Committee - Correspondence
July 1986 - May 1987

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE May 29, 1987

JUN 2 1987

TO Mr. Jean Baneth, Director, EPD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "Agricultural Supply Response in Sub-Saharan Africa"

1. Thank you for your May 26, 1987 memorandum indicating your acceptance of REPAC's decision to fund the above project initially at the level of $60,000 to permit the completion of the Sudan study and the undertaking of two additional country studies. An oversight committee is expected to review the project upon completion of this first phase.

2. The project's identification code and financial authorization are issued as follows:

i)	Identification Code	674-28
ii)	FY88 Authorization	$40,000
iii)	FY89 Authorization	$20,000
iv)	Total Authorization	$60,000

Please use the identification code in all financial documents and other correspondence related to this project, including letters of appointment to consultants.

3. Please note that since the project is expected to be completed on December 30, 1988, according to REPAC's rules, it will be closed on June 30, 1989.

cc and cleared with: Mr. D. Lal

cc: Messrs./Mmes. R. Duncan, E. Grilli, Y. Calleja, EPD
S. Panickaveetil, M. Tonson, PBD
J. Fernandez, K. Hannemann, ACT
S. Thavamoney, SVPMI
B. Ross-Larson, CON
S. Aiyar, V. Mataac, V. Giannisis, VPERS
A. McAlister, BRDC
REPAC Members

OFFICE MEMORANDUM

DATE — May 29, 1987

JUN 2 1987

TO Messrs. F. Levy and W. Byrd, AEA

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION

SUBJECT Research Project 674-05: "Chinese Collective Industry"
Request for Supplementary Funding

1. REPAC has approved your department's request for $24,000 to fund the additional tasks that need to be undertaken in connection with the above research project.

2. The revised financial authorization status of RPO 674-05 is as follows:

		Authorizations	
		Previously	Now
i)	FY86 Authorization	$20,000	$20,000
ii)	FY87 Authorization	$84,000	$84,000
iii)	FY88 Authorization	-	$24,000
iv)	Total Authorization	$104,000	$128,000

cc. and cleared with: Mr. D. Lal

cc: Messrs/Mmes: S.J. Burki, B. Merghoub, E. Monaghan, AEA
K. Hannemann, J. Fernandez, ACT
V. Mataac, VPERS
REPAC Members

M E M O R A N D U M

Date: May 26, 1987

To: Mrs. Phi Anh Plesch, Secretary, REPAC

From: Jean Baneth, EPDDR

Subject: Research Proposal: "Agricultural Supply Response in Sub-Saharan Africa" Resubmission

Thank you for your memo of May 21, 1987. REPAC's decision to fund the above project initially at the level of $60,000, to permit the completion of the Sudan study and undertaking of two additional country studies, is accepted. I note the Committee's acceptance of our suggestion for an oversight committee to review the project upon completion of the first stage.

c.c. Messrs. Grilli, Duncan
REPAC Members

RDuncan:akw

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE May 22, 1987

TO Mr. Robert Picciotto, Director, LCPDR

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Preparation Proposal: "Effectiveness and Efficiency of Training and Vocational/Technical Education in Latin America"

Following your acceptance of REPAC's decision to fund the above request at the level of $12,000, the project's identification code and financial authorization are issued as follows:

i)	Identification Code	674-27
ii)	FY87 Authorization	$6,000
iii)	FY88 Authorization	$6,000
iv)	Total Authorization	$12,000

Please use the identification code in all financial documents and other correspondence related to this project, including letters of appointment to consultants.

cc and cleared with: Mr. D. Lal

cc: Messrs./Mmes. D. Keare, E. Wessels, R. Drysdale, E. Schiefelbein, R. Moran, B. Kugler, L. Steiner, LCP
E. Jimenez, C. Dougherty, EDT
S. Panickaveetil, M. Tonson, PBD
J. Fernandez, K. Hannemann, ACT
S. Thavamoney, SVPMI
B. Ross-Larson, CON
S. Aiyar, V. Mataac, V. Giannisis, VPERS
A. McAlister, BRDC
REPAC Members

THE WORLD BANK ... FINANCE CORPORATION

OFFICE MEMORANDUM

DATE May 21, 1987

MAY 22 1987

TO Mr. Jean Baneth, Director, EPD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "Agricultural Supply Response in Sub-Saharan Africa" (Resubmission)

Thank you for resubmitting the above proposal to REPAC. It has been evaluated by a REPAC subcommittee which has also met with the sponsor, Mr. Duncan, as part of the review process. The subcommittee again expressed its strong support for the topic and objective of the proposal because it considered them to be important and relevant to the Bank's operations and policy formulation. It believed that a disaggregated, country-specific approach to the study of agricultural supply responses is the appropriate one, one that could lead to more meaningful results than a highly aggregated, global approach (this is without prejudice to your appeal case regarding the proposal on "The Determinants of Aggregate Agricultural Supply" which is still under review). The subcommittee still expressed some concerns about the problems of data and the vagueness of the models specifications. However, it accepted Mr. Duncan's argument that full model specification forms the central part of the project and this, along with the adequateness of the data, would be reviewed by an oversight committee upon completion of the first few studies, as suggested under the staged approach. The subcommittee has therefore decided to partially fund the proposal, at the level of $60,000, to permit the full completion of the Sudan study and the undertaking of two additional country studies to be selected among the other five included in the proposal's list.

Upon notification of your acceptance of the above REPAC decision, an identification code and the financial authorization will be issued to the project.

cc and cleared with: Mr. D. Lal

cc: Messrs. R. Duncan, E. Grilli, EPD
REPAC Members

OFFICE MEMORANDUM

DATE May 19, 1987

MAY 2 0 1987

TO Mr. Vittorio Corbo, DRDDR

FROM Phi Anh Plesch, Secretary, REPAC

EXTENSION 33484

SUBJECT Extension of Closing Date for RPO 673-83

This is to inform you that your request for an extension of the closing date of your project 673-83 from May 30, 1987 to November 30, 1987 has been granted.

cc: Messrs. G. Ingram, D. de Tray, DRDDR
Ms. V. Mataac, VPERS

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

MAY 21 1987

DATE: May 19, 1987

TO: Mrs. Phi Anh Plesch, Secretary, REPAC

FROM: Robert Picciotto, Director, LCPDR

EXTENSION: 75906

SUBJECT: Research Preparation Proposal: "Effectiveness and Efficiency of Training and Vocational/Technical Education in Latin America"

Thank you for your memorandum of May 11, 1987. We accept REPAC's decision to fund this request at the level of $12,000, though the limited transportation budget will inevitably mean some delay in preparation as we seek to maximize "joint costs" trips funded from departmental resources.

With reference to your second paragraph, we can assure you that no "duplication" of the previous research is proposed.

cc. Messrs. D. Lal
E. Wessels, R. Drysdale, E. Schiefelbein,
R. Moran, B. Kugler, LCP
E. Jimenez, C. Dougherty, EDT
REPAC Members

DHKeare/RPicciotto:mah

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE May 14, 1987 MAY 15 1987

TO Mr. V. Rajagopalan, Director, EMP

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Preparation Proposal: "Factors Conducive to the Creation of Female Employment in EMENA Region Countries"

1. Thank you for your memorandum of May 8, 1987 in which you indicated your department's acceptance of REPAC's decisions and recommendations as set forth in my April 28 memorandum regarding the above research preparation proposal.

2. The project's identification code and financial authorization are now issued as follows:

i)	Identification Code	674-26
ii)	FY87 Authorization	$7,000
iii)	Total Authorization	$7,000

Please use the identification code in all financial documents and other correspondence related to this project, including letters of appointment to consultants.

cc and cleared with: Mr. D. Lal

cc: Messrs./Mmes. N. Lindsay, M. Boissiere, M. Armaly, EMP
S. Panickaveetil, M. Tonson, PBD
J. Fernandez, K. Hannemann, ACT
S. Thavamoney, SVPMI
B. Ross-Larson, CON
S. Aiyar, V. Mataac, V. Giannisis, VPERS
A. McAlister
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: May 13, 1987

TO: Mr. Deepak Lal, Chairman, REPAC

FROM: Vittorio Corbo, DRDDR

EXTENSION: 1056

SUBJECT: RPO 673-83

The project on Structural Adjustment in a Newly Industrialized Country: Lessons from Korea that I have co-directed with Dr. Suh, Vice President of the Korea Development Institute is almost completed now. The project was initially scheduled to last 18 months starting in May 1985. However, as the approval was obtained only in late August 1985. The start of the project had to be delayed until the middle of September of 1985.

At the moment we have revised version of all the chapters which have also gone through the first round of editing. The two co-directors are working now on a chapter on lessons which will be completed in the next month.

The complete manuscript will be submitted shortly to the Publications sub-committee for evaluation. When the referees' reports are in, Corbo and Suh will meet in Korea to work on suggested revisions and to prepare a summary paper for probable publication in one of the Bank's journals.

As the project started with an almost 6-month delay, we would like to request that the closing date of the project be extended until 11-30-87. In this way the co-directors will have enough time to ensure that the manuscript and the summary paper are completed in good form.

Attachment: Table of Contents

cc: Mr. Suh Sang-Mok, KDI
Mr. G. Ingram, D. De Tray, DRDDR

VC:ao

Structural Adjustment in a Newly Industrialized Country: Lessons from Korea

V. Corbo and S. M. Suh (Editors)

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12. Energy Policies and Korea's Adjustment
Julio Rotemberg and Seok-Hyun Hong

13. Social Welfare during Structural Adjustment Period in Korea
Sang-Mok Suh and Ha-Cheong Yeon

14. Lessons from Korea's Structural Adjustment
Vittorio Corbo and Sang-Mok Suh

AFFILIATION

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Rudiger Dornbusch	MIT
Julio Rotemberg	MIT
Shujiro Urata	Waseda University, Tokyo
Ryu Byong Seo	Sungkyun Kwan University, Seoul, Korea

Korea Development Institute

Yung-Chul Park	President
Sang Mok Suh	Vice-President
Soogil Young	Senior Fellow
Kyu-Uck Lee	Senior Fellow
Fun-Koo Park	Senior Fellow
Song Dae Hee	Fellow
Ha-Cheong Yeon	Senior Fellow
Seok-Hyun Hong	Fellow
In-Joung Whang	Senior Fellow

World Bank

Vittorio Corbo
Tarsicio Castaneda
Yoon Je Cho
Inbom Choi
Sang-Woo Nam

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

MAY 12 1987

DATE May 11, 1987

TO Mr. R. Picciotto, Director, LCP

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Preparation Proposal: "Effectiveness and Efficiency of Training and Vocational/Technical Education in Latin America"

1. REPAC has reviewed your department's request for $19,000 to fund the preparation of a research proposal on the above topic. While it is in favor of providing some seed money for this undertaking, it considers the budget allocated to travel as excessive. REPAC, as a matter of general practice, views travel to identify local collaborators or to finalize institutional arrangements to be a part of the main research project and not of research preparation. In this special case, it accepts the justification for such travel as provided in the request but it does not see from the cost-effectiveness standpoint why the proposed research identification task should be carried out by two persons instead of one. In any event, it appears that some of the travel may be hooked on to mission work and therefore partly funded from departmental resources. Thus the amount REPAC has decided to authorize is $12,000, which should be sufficient to cover the consulting cost associated with the preparation of the main research proposal and one-person trip for research identification.

2. REPAC notes that some of the issues to be investigated have been researched in the context of a completed large research project on "Diversified Secondary Curriculum (DISCUS)" with Colombia as one of the two case studies. This project managed by Mr. Psacharopoulos had received a substantial amount of money ($429,000) from the Research Support Budget. REPAC strongly recommends that attention be given to avoid any duplication with this study when designing the future research. The literature review in the main proposal should indicate how the proposed project intends to build on the results of past or existing work, in particular the DISCUS study, and clearly identify the gaps that remain to be investigated.

3. Upon acceptance by you and the sponsors of REPAC's decision to fund this request at the level of $12,000, the identification code and financial authorization will be issued for the project.

cc and cleared with: Mr. D. Lal

cc: Messrs. R. Drysdale, E. Schiefelbein, R. Moran,
B. Kugler, D. Keare, LCP
E. Jimenez, C. Dougherty, EDT
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

MAY 11 1987

DATE May 7, 1987

TO Mr. Deepak Lal, Research Administrator

FROM Jean Baneth, EPDDR

EXTENSION 3800

SUBJECT Appeal of Rejection of Research Proposal:
"The Determinants of Aggregate Agricultural Supply"

1. As sponsor of the above research project, EPD hereby appeals its rejection by REPAC (memo from Secretary of REPAC, April 28, 1987).

2. Three of the four reviewers of the proposal supported it ("overall it is a very well thought out proposal"; "the proposal for me is very readable.."; "the arguments presented...have just the right blend of analytical insight, understanding of the realities and econometric efficiency..."; "written by very competent people and would enhance our understanding..."; "to conclude, I support the proposal..."). Had we been shown the evaluation report of the earlier completed RPO, we would have been able to answer some of the reasonable questions asked by these reviewers, and thus presumably further strengthen their support. One reviewer opposed the proposal, "mainly because I fail to see what policy implications (it) can possibly have..." . To paraphrase Modigliani, I am puzzled by people who think that the statement "I do not understand this" constitutes devastating criticism.

3. Let me add, not as a criticism, that parts of the Sub-Committee's Report are somewhat hermetic. What is one to make of the criticism that: "this is mainly a methodological exercise whose sole post-project debates will not (sic) be limited to methodological nit-picking of little interest to those not (sic) themselves involved in this type of work."?

4. I am also puzzled by the Sub-Committee's failure to see the policy relevance of the study. Surely, they could have, and indeed should have sought enlightenment from the reviewer who wrote: "The question of aggregate supply response is of major importance if structural adjustment is to lead to growth...". The Director of the Agriculture Department in supporting the project, also noted that "the proposal itself provides adequate justification for its importance". In my own view, the project will clearly not produce parameters applicable to a specific country and yielding secure estimates of future aggregate supply responses there. However, it should shed light on the general validity of the precepts broadly applied by the Bank in its policy dialogues with African countries, which generally postulate relatively high price elasticities of aggregate agricultural supplies.

57 Price (and other) data are admittedly weak in Africa. They are, however, for want of better information, used by the Bank in all its project, sectoral and macroeconomic work. In addition to the data cleaning methods described in the project proposal, we are engaging a researcher familiar with prices and conditions affecting them (shortages, etc.) in several African countries, to help further improve the significance of the data.

6. The circumstances of the rejection of this proposal, supported by three of the four reviewers chosen by the REPAC itself, throw serious doubt on the validity of the research project evaluation process. I request a review of the proposal by the full REPAC as provided by existing rules and regulations (and not by the Sub-Committee), and established by Mr. King's memorandum of May 5, 1987.

7. The principal researcher, Professor Mundlak will be in Washington starting around June 15. I suggest that REPAC should arrange to meet with him and with Mr. Duncan before deciding on this appeal.

c.c. Messrs. King, VPERS; Grilli, EPDDR; Duncan, EPDCS
REPAC members

JBaneth/kg

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

MAY 12 1987

DATE May 7, 1987

TO Mr. Gregory K. Ingram, Director, DRDDR

FROM Phi Anh Plesch, Secretary, REPAC

EXTENSION 33484

SUBJECT Research Proposal: "Stopping High Inflation: Four Case Studies" Phase I

1. Following your acceptance of REPAC's decision on the above proposal as set out in my memorandum of April 27, 1987, the project's identification code and financial authorization for Phase I are issued as follows:

i)	Identification Code	674-24
ii)	FY87 Authorization	$15,000
iii)	Total Authorization	$15,000

Please use the identification code in all financial documents and other communications concerning this project, including letters of appointment to consultants.

2. Please indicate the expected date of completion of Phase I so the closing date for the project can be determined accordingly. The latter date may be revised if and when Phase II is approved and funded.

cc: Messrs./Mmes. S. van Wijnbergen, P. Montiel, M. Kiguel,
V. Corbo, H. Sioris, DRD
S. Panickaveetil, M. Tonson, PBD
J. Fernandez, K. Hannemann, ACT
S. Thavamoney, SVPMI
B. Ross-Larson, CON
S. Aiyar, V. Mataac, V. Giannisis, VPERS
A. McAlister, BRDC
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

MAY 07 1987

DATE May 6, 1987

TO Mr. Aklilu Habte, Director, EDT

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Comparative Educational Policies in Africa: RPO 673-76 Request for Final Funding

1. REPAC has reviewed your Department's request for $30,000 to help complete a research project on "Comparative Educational Policies in Africa." The money is to fund ten case studies in West African countries, to complement the seven or nine case studies already undertaken for East African countries using departmental funds. Following the completion of all case studies, a final synthesis volume would be prepared and its cost would be borne by EDT.

2. The main question raised by REPAC with respect to the request is whether the existing case studies have successfully addressed the fundamental issues listed under the generic "research question" motivating the study. At the very least, the sponsor should have i) made a strong case that the information and data thus far gathered from individual countries would allow the type of comparative analysis such as that planned; and ii) indicated what organizational framework will be used for the comparative analysis and what methods and techniques will be employed to derive the intended lessons.

3. Without supporting evidence that "the central research question could be answered by a more modest effort than originally contemplated," REPAC cannot properly judge the merits of the present request and therefore cannot approve it. The effort undertaken so far, i.e., the seven case studies, appears to be more akin to regular departmental sector work than research. REPAC would recommend that the sponsor submit a more detailed proposal that explicitly addresses the issues i) and ii) raised in paragraph 2 above.

cc and cleared with: Mr. M. Selowsky, Acting REPAC Chairman

cc: Messrs. G. Psacharopoulos (EDTRS), and B. Fredriksen (WAPED)
REPAC Members

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE April 29, 1987

APR 3 0 1987

TO Mr. Vinod Dubey, Director, CPD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "Secondary Markets and Debt Reduction Schemes for Highly Indebted Countries"

1. After having been reviewed by three referees, this proposal was considered by a REPAC subcommittee whose views and recommendations were as follows.

2. Like the referees (see their reports attached), the subcommittee was very supportive of this research, which it thought to be interesting, timely and highly relevant. But beyond this general assessment, the subcommittee did not find either in the proposal or in the attached paper on Chile any clear statement of the methodology guiding the inquiry. It was noted that the paper on Chile, although very informative, was mostly descriptive and as such could only serve as a useful starting point for the proposed study. Without an analytical framework explicitly spelled out in advance, it was feared that the study might end up also highly descriptive and short on analytical content. While there is no need to specify a full-blown model, it was suggested that the issues to be discussed could usefully be put in the context of a simple macroeconomic framework to help analyze the macroeconomic consequences (including monetary, interest rate and exchange rate) of the various debt reduction schemes, as well as the cost-benefit of the alternative schemes. Within this framework other important issues pointed out by the referees could also be investigated. In particular, the monetary implications and the potential moral hazard problems of debt-reduction schemes pointed out by one of the referees need to be analyzed. These can be seen in more detail in their reports, and should be taken into consideration in the analytical design of the research. Finally, the subcommittee did not find any discussion of the data that will be used or required for the study.

3. In summary, while REPAC strongly endorsed the importance and relevance of the topic, it has decided not to approve the proposal at the present moment. As it would like very much to encourage research in this area, it would recommend that the sponsors further strengthen the proposal and resubmit it for its consideration. The revised proposal should:

(i) include a clear statement of the methodology or the analytical framework for the discussion of the issues;

(ii) take the referees' suggestions and concerns into consideration; and

(iii) indicate what data will be required and whether they are available and from what sources.

4. The above REPAC's decisions and recommendations have been communicated to the Acting Vice President, ERS for his information.

cc: Messrs. M. Selowsky, B. Kavalsky, CPD
REPAC Members

S-9135.

THIS IS PAGE 1 OF A 3 PAGE DOCUMENT

URGENT

JPERS

To the attention of Mrs. P.A. PLESCH (S 9135)
Secretary to the Research Projects Approval Committee, Economics and Research.

Concerns: Research proposal on "Secondary Markets and Debt Reduction Schemes for Highly Indebted Countries."

The topic of the research proposal is both highly interesting analytically and of immediate practical relevance. It is well worth pursuing. The proposal itself seems on the whole feasible and worthwhile. The project leaders know the area well. The project would therefore appear worth supporting though I would make a few suggestions as to the research's design.

The project seeks to evaluate the desirability and feasibility of implementing more liberal debt reduction schemes in six highly indebted Latin American countries, Argentina, Brazil, Chile, Mexico, Peru and Venezuela. The research is to consist of six country studies patterned on the paper on Chili written by F. Larrain. A summary paper by the project coordinators will compare these experiences and draw general implications.

My main suggestion is that a general paper delineating the issues to be investigated and providing some analytical background should be written

delineating the issues would appear both feasible and desirable. Indeed, it is necessary if alternative schemes are to be evaluated comparatively. Two things are needed: 1) a simple cost-benefit analysis, even if only partial equilibrium, of alternative debt reduction schemes; 2) a simple macroeconomic analysis, again of a simple standard open economy model type, of the monetary, interest rate, and exchange rate consequences of various schemes. I am not suggesting that a full-blown formal model is required but that issues be discussed more explicitely with such a model in the background. This is already done partly, but not sufficiently, in the Larrain paper. Such a framework should be able to seperate out three interconnected aspects of debt reduction schemes: the buying back of debt at a discount; the debt for equity swap aspects of some of the schemes; and the "return-of-capital-flight" aspects of some of the schemes.

With such a framework, it should be possible to sort out the following five important issues, both in individual country studies and in the summary paper:

1. Comparing the various special schemes with a policy of outright buying back of debt, either at par or at a discount, in terms of welfare (distortions), macroeconomic or fiscal consequences.

2. Comparing the various special schemes with straight debt for equity swaps or with subsidies to such swaps in terms of the same criteria as in 1.

3. Assessing, admittedly roughly, the effects of alternative schemes on the discount on a country's external debt. This is an important question if such schemes are to become important quantitatively. It is also clear, however, that the issue cannot be more than alluded to in the research since it raises all manners of questions of strategic behavior and moral hazard.

4. Ranking various existing schemes in terms of their welfare (and other) costs and benefits. Which schemes are second-, third-, or nth-best. This should also help suggest better alternative schemes to existing ones.

5. Pulling together the various macroeconomic effects listed in the Larrain paper and interestingly discussed there.

Given that these questions are kept in mind, the Larrain paper provides a very useful starting point for the project. I would only suggest, mainly for the benefit of the reader/user not entirely familiar with the details of the schemes, that each scheme be presented with the help of an example of a typical transaction chain followed through the T-accounts of the agents involved.

The summary paper could usefully touch on two interesting questions (the first of which is mentioned in the proposal but may deserve more analysis): what are the main obstacles to greater use of such schemes and to the alternative of a straight buy-back policy; and what would the consequences of a generalization of debt-reduction schemes be, notably for international financial markets?

Comments on Research Proposal Entitled, "Secondary Markets and Debt Reduction Schemes for Highly Indebted Countries"

1. Overall, the project is a worthy one and should be supported. Information on debt conversion schemes, either external debt for internal debt or external debt for equity, is, except in the case of Chile, in short supply. The proposed papers would add to the stock of knowledge on the subject. The conclusions regarding the possible benefits of moving to a more liberalized system could be quite useful to Latin American policy-makers and to Bank staff involved in policy discussions with Latin American government officials. I have some concerns regarding the proposal, but these should be regarded as constructive support for the project.

2. Most of my concerns regarding the project have to do with the discussion paper attached to the proposal. While it is very informative, it seems to dismiss too quickly some potential problems with debt conversion schemes. Some of these concerns are elaborated below.

3. The paper argues that the potential monetary impact of these schemes is quite limited. Perhaps this has been the case in Chile, but it need not be so. The author argues that the monetary base is increased only if the central bank trades its own external debt for pesos. The monetary base would be increased if the central bank purchased any external debt for pesos. The monetary base would also be increased if the government purchased external debt with pesos acquired by selling domestic bonds to the central bank. The impact on the monetary base could be offset by sterilization, but sterilization requires the existence of the appropriate private markets for claims on the government. If the rate of increase of domestic debt resulting from central government external debt repurchases is too great, then the inflation rate may jump without any increase in the rate of growth of the money supply, in anticipation of future monetization of the domestic debt. (See Sweder van Wijnbergen's paper entitled, "Fiscal Deficits, Exchange Rate Crises and Inflation.")

4. Another area of concern is the impact of external debt conversions on the debtor country's external reserves. The author argues that the foreign exchange used for the purchase of debt certificates does not come out of reserves. Instead, these funds represent either the repatriation of funds held abroad or purchases on the parallel market. Presumably, transactions that increase the demand for foreign exchange on the parallel market (or decrease the supply in the case of funds held abroad which might have been sold on the parallel market but are used instead for debt conversion purposes) decrease the supply of foreign exchange going through official channels and decrease reserves, everything else equal. (The decrease in reserves, from what they

would have been in the absence of a debt conversion scheme, has a contractionary impact on the monetary base, perhaps offsetting some of the potentially expansionary impacts discussed above.)

5. The paper downplays (or omits) other issues of potential concern. These include the potential moral hazard problems that arise when a government or firm is buying its own debt at a discount, the fact that Chile has converted some of its external debt into dollar indexed bonds, which have the characteristics of external debt, and the lack of evidence that Chile did manage to attract flight capital through its debt conversion scheme. What is the effect of external debt conversions on the base for concerted lending operations, which are likely to be required for many Latin American countries over the next few years. Overall, debt conversion schemes imply a subsidy to foreign direct investment. Can we clearly identify the externalities or the other market distortions that justify this subsidy? Do we have evidence that the repatriation of foreign investment earnings is procyclical?

6. Again, these concerns should be regarded as constructive criticisms. The project is interesting and important and the results should be useful to the Bank in its policy work.

OFFICE MEMORANDUM

DATE: 25 March 1987

TO: Phi Anh Plesch, VPERS

FROM:

EXTENSION:

SUBJECT: REVIEW OF RESEARCH PROPOSAL
SECONDARY MARKETS AND DEBT REDUCTION SCHEMES FOR HIGHLY INDEBTED COUNTRIES

1. As agreed I reviewed the captioned research proposal. I think that the proposal is both timely and important and covers an area of great interest to the Bank. It places particular emphasis on the measures that the governments of developing countries could or should take to stimulate use of secondary markets for LDC debt and encourage the repatriation of capital that is held overseas by domestic residents (reversal of capital flight).

2. The research will fundamentally be a study of the costs and benefits of further liberalization of exchange controls on capital flows with a specific link to the use of secondary markets for external debt and to mechanisms that facilitate debt/equity swaps. As such the proposal is well defined. However, great interest has been shown in recent weeks in various suggestions and possibilities that might involve some kind of 'financial engineering' in resolving the debt problem. These might involve transfer of existing claims to new agencies or institutions and repackaging into new securities that might find a broader and more liquid market. The hoped-for result would then be that market discounts on LDC debt might be lower than they are at present in secondary markets that are rather thin and lack liquidity. There are also initiatives on the tax treatment of bank losses on LDC loans that might have a considerable impact on the secondary markets.

3. It would be very interesting if the scope of the research proposal could be widened to include an examination of the actions that might be taken in developed countries, also covering any innovations or new packages that investment banks may be in the process of developing, to stimulate greater securitization and secondary trading of claims on LDCs. This would provide a more comprehensive study of the prospects and possibilities of using market-based solutions in tackling the problem of the LDC debt.

cc.

4. The research proposal does not indicate the time it will take to complete the study. Moreover, the overall cost of the study as well as the cost of the individual country studies seem rather high, although a lot depends on how comprehensive and detailed the studies are intended to be. As some of the above initiatives appear to be under active consideration in various quarters these days I think that an emphasis on early completion would be advisable. This might require placing less emphasis on the detailed individual country studies in favour of a more general overview. The overall cost of the study could then also be reduced. However, the final decision on this depends on whether specific recommendations on a country by country basis would be desirable at this stage.

5. I hope these comments are useful.

D. deTray

OFFICE MEMORANDUM

DATE May 5, 1987

TO Distribution below

FROM Benjamin B. King

EXTENSION 3-3774

SUBJECT REPAC Appeals--OMS 9.70

I attach a memorandum from Alden Doud of the Legal Department on this Operational Manual Statement. It is clear from this that the OMS needs revision for the sake of clarity alone, but, as it is possible that in PPR changes of substance may be contemplated, that can be postponed for the time being.

In the meantime, the practice of referring appeals from the judgement of the Chairman alone under 7(a) or a subcommittee under 7(b) back to the original "judge" will clearly have to stop. All appeals should be referred to REPAC as a whole.

Attachment/-

cc. Mr. W.D. Hopper
RPC
REPAC
Ms. Plesch, VPERS
Mr. J. Waterston, PMDPL

Record Removal Notice

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File Title	Barcode No.
Research Projects Approval Committee - Correspondence - July 1986 - May 1987	1042956

Document Date	Document Type	
May 1, 1987	Memorandum	

Correspondents / Participants
To: Benjamin B. King, VPERS
From: Alden Lowell Doud, LEGVP

Subject / Title
REPAC Appeals - OMS 9.70

Exception(s)
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Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
S. Thompson	August 21, 2025

MEMORANDUM

6May87

To: Phi Anh Plesch

From: Dennis de Tray

Extension: 3-3480

Subject: LAC Ed. Proposal

Phi Anh:

I agree with your assessment. At this stage the justification for one trip is weak, let alone two. In your decision memo (or Marcello's) you should say that (1) REPAC, as a matter of general practice, views travel to identify consultants, etc, as a part of the research project, not research preparation, and (2) in any event, two trips would seem to be excessive. I'm sure that some of the travel can be hooked on to mission work, so I doubt that LAC will scream too loudly.

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

APR 24 1987

DATE April 20, 1987

TO Mr. Jean Baneth, Director, EPD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Proposed Revision and Extension of RSB-Funded Project No. 673-91 "Foreign Borrowing, Debt Crises and Macroeconomic Management"

In your memorandum of April 8, you informed REPAC that Mr. Jeffrey Sachs could not continue as the principal researcher for the above research project. REPAC deeply regretted this as the fundamental reason why it had decided to fund that project -- apart from the importance of the topic -- was precisely the involvement of Mr. Sachs as the principal author of the proposed monograph. As much as it attached great importance to the project, it did not accept your proposed choice of Mr. Daniel Cohen as a substitute main researcher/author. It has decided that without the primary involvement of Mr. Sachs, the project should be cancelled and all the funds previously authorized ($47,410.00) be reverted back to the Research Support Budget.

cc and cleared with: Mr. D. Lal

cc: Messrs. J. Underwood, C. Larkum
REPAC Members

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE April 16, 1987

TO Mrs. Phi Anh Plesch, VPERS

FROM Gregory K. Ingram, DRDDR

EXTENSION 33786

SUBJECT Research Proposal: The Impact of Changes in Job Security Regulation in India and Zimbabwe

1. Thank you for your memorandum of April 8, 1987 advising me of REPAC's decision on Mr. Fallon's proposal.

2. This department accepts REPAC's decision to approve the proposal but reduce the level of funding to $40,000.

3. Please process the appropriate authorizations and project codes.

cc: Messrs. C. Lluch, P. Fallon, V. Corbo, D. de Tray

GKIngram:gm

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

APR 15 1987

DATE April 13, 1987

TO Mr. G. Psacharopoulos, EDTRS

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Comparative Educational Policies in Africa: RPO 673-76 Request for Further Funding

Thank you for submitting the completion report on your research preparation project 673-76, "Comparative Educational Policies in Africa."

As for your request for $30,000 in additional funds, I regret to inform you that REPAC could not grant this because it has already contributed a substantial sum towards the preparation of a research proposal on the above topic. Whatever other preparatory work needs to be done, it should be done with your departmental and/or regional resources. After all preparatory work is completed, REPAC would expect that you submit a research proposal in due form as you have originally intended when you accepted the first RSB grant some two years ago.

cc and cleared with: Mr. D. Lal

cc: REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

APR 30 1987

Date: April 28, 1987

To: Mr. Jean Baneth, Director, EPD

From: Phi Anh Plesch, Secretary, REPAC PAP

Extension: 33484

Subject: Research Proposal: "The Determinants of Aggregate Agricultural Supply"

1. The above proposal sponsored by Mr. R. Duncan from your Department had been reviewed by two Bank staff and two external referees (their comments are attached). A REPAC subcommittee considered the proposal at two successive meetings. Following the first meeting, the subcommittee report summarizing its concerns and those of the reviewers was sent to Mr. Duncan who was then invited to the second meeting to respond to these concerns.

2. As you can see from the attached reports, the proposal raised three major concerns:

i) the questionable quality of the data base and particularly the use of "official" product prices;

ii) the many methodological lacunae in particular with respect to the modelling of price expectations and investment choices; and

iii) the high level of aggregation and the implications for policy relevance of the elasticity estimates.

3. In response to these concerns, Mr. Duncan said he recognized the shortcomings in the data base but felt that for the purpose of this exercise, one should make do with the best data -- however flawed -- available. He also believed that the various methodological difficulties raised might not be serious enough to jeopardize the main purpose of the research which was to convince people who do not believe in the price elasticities of supply response. The subcommittee was greatly skeptical about this argument for it did not see how, given the weaknesses of the data and methodology, the resulting estimates could be robust enough to be convincing. Compounding the issues of the robustness of the data and methodology, the extremely high level of aggregation of the estimates would, in the subcommittee's view, make them certainly irrelevant for policy purposes. The subcommittee did not believe that the regional economists could be persuaded to use these aggregate estimates in their country policy and operational work. For the purposes of persuasion, it thought that a more disaggregated approach (i.e., selecting five or six crops for study) or a country-specific

approach would be more convincing and would lead to more useful and policy-relevant results.

4. In view of the above, the REPAC subcommittee has decided not to approve the proposal for funding from the RSB. This decision has been communicated to the Acting Vice President, ERS, for his information.

cc and cleared with: Mr. M. Selowsky, Acting REPAC Chairman M.S.

cc: Messrs. R. Duncan, E. Grilli, EPD
REPAC Members

SUBJECT: Research Proposal: The Determinants of Aggregate Agricultural Supply

1. The objective of this proposal is to "provide a robust answer to the question: How price-elastic is aggregate crop output?" The proposal is basically an extension of an earlier research project (RPO 673-15) "Supply Response of Aggregate Crops Output" also sponsored and carried out by the same researchers.

2. A review of the earlier RPO is obviously relevant and we are provided with a completion report and an outside evaluation. This evaluation stated that although the "study was technically very good", given the poor nature of the data (especially the notoriously poor FAO price data) on which the study was based, it was not obvious that the technical proficiency achieved by using very sophisticated econometric techniques justified either the efficiency of the results or the effort. Even though the development of appropriate estimation procedures and the creation of a questionable data base from some sixty countries were cited as useful outcomes of the project by the researchers, it is the questionable value of the estimates based on poor quality data that raises several questions about the value of the exercise. It is known that single crop production data are poor to begin with, but to do aggregate work various indices were "reconstructed" using regression equations in some cases to "fill in" for missing values. Aggregate price indices were constructed from "official" prices which hardly reflect what farmers receive given the preponderance of parallel markets in most LDCs. How estimates from such data can be deemed "robust", even if the methods were perfect escapes us. Further, how useful are estimates at such an aggregate level - that is a cross-section of some 60 countries - derived from imperfect data? What significance can be attached to elasticities derived from pooling data across farms, crops, regions and above all, countries? What do the results tell us? What are the policy implications if any? These questions are relevant in evaluating the present proposal which essentially wants to repeat the exercise, with different country groupings and better variable definitions (including a better specification of the inelastic factors supplies as determinants of supply response), but with even more sophisticated methods (that would incorporate such factors as expectations and investment allocations). However, these more sophisticated methods require additional data (agricultural capital stock, labor, land) which is likely to be even of poorer quality.

3. The following lists our major concerns regarding the present proposal.

(i) The methodological lacunae are many including whether factors such as expectations and investment choices can be modelled assuming farm level behavior and then estimating these models with data pooled across countries! Other methodological difficulties have been pointed out by the reviewers in some detail and they all point to the fact that this is mainly a methodological exercise whose sole post-project debates will not be limited to methodological nit-picking of little interest to those not themselves involved in this type of work. What is surprising, given this heavy emphasis on methodology, is that, as one reviewer puts it "the meat of the proposal is omitted since the details of the estimation procedures are not specified". Further, too many legitimate questions are raised by the reviewers about whether the methods being used make much sense given the diversity of the agricultural sector and the nature of the rural factor and product markets.

(ii) The aggregation across many crops, types of producers and even countries makes little sense and what comes out at the end will be of little value to anyone. In addition, no allowance is made when large part of the relevant prices are not official prices. What is implied by supply elasticity of say 0.3 in response to an aggregate price? Does it mean that the response would be the same for meat as for grains and in all regions and in all countries in the pooled data from which the estimate is made? What policy relevance would this have? How would one use this estimate? What would be served by getting "better estimates"? The extreme level of aggregation involved in the estimates makes the entire project "a meaningless exercise".

(iii) The data used in the earlier exercise were already questionable. This proposal will use that same data and will need additional data that may not even exist, but will no doubt be "reconstructed" from some source or the other. Nor will it be of much comfort if the estimates from the poor data sets are deemed to be "unbiased" or obtained from "well specified behavioral models" (which in this case is not certain). If the data are poor, questionable or manufactured who will care if the methods are sophisticated? We are not even told clearly from where the data will be obtained and whether their quality will be worth this overblown exercise.

(iv) But our main concern is the seeming lack of policy relevance of the results, and the lack of interest in their policy implications, even if one were to set aside the way they are obtained. This and the earlier proposal state that estimates of aggregate supply elasticity are of enormous policy relevance to such issues as tax policy and inter-sectoral terms of trade. Well maybe, but the proposal does nothing to motivate our interest in these issues. We do not know of a single instance, (in our admittedly limited operational experience) when the knowledge of aggregate supply response elasticities (across all crops, all regions and all types of producers) even when estimated for a

single country was central to any policy advice or discussions; let alone some synthetic supply response estimated from pooled data from several countries. Once we have these results what exactly will we use them for? Would someone in the regions who is involved with policy dialogue endorse this work and show us how a knowledge of these estimates makes a difference to their policy advice? We are afraid that this type of work does little to add to our kit of tools in the operational context, nor does it provide us with anything of great value in our policy work.

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE March 6, 1987

TO Mrs. Phi-Anh Plesch, VPERS

FROM

EXTENSION

SUBJECT Proposed research on the determinants of aggregate agricultural supply

I apologize for the delay in submitting my report on this proposal which I read together with various versions of the report on the predecessor project (reading most closely the undated paper on Estimation of Aggregate Agricultural Supply Response: EA) and the anonymous report (R) which I assume to have been shown to the authors of the present proposal. Unfortunately, I did not see Professor Mundlak's Rehovot papers which are referred to in the proposal. I regret this because those papers presumably present a proof of the proposition that failure to account for inelastic factor supplies in the estimation of supply response necessarily yields (credible?) estimates of short-run response: not obvious to me as a general proposition.

Subject to the comments that follow I support the proposal. The question of aggregate agricultural supply response is of major importance if structural adjustment is to lead to growth. The focus on factor supply seems completely right, even to someone who is agnostic on the relative order of importance, for purposes of policy or the growth process, of research on aggregate as distinct from sectoral, supply response.

My comments refer first, to the focus of the proposal and questions left open in the predecessor project; second, to the matter of data.

1. (i) I am not an econometrician but wonder nevertheless to what extent the points made in R on possible biases and their causes will be taken into account in the proposed work?

(ii) In the same vein, I should have welcomed a reference in the proposal to the suggestion in section VI of EA ('Further Directions'): that grouping of countries according to alternative criteria should deal better with the possible problem of supply response differing systematically between countries with respect to the shifter variables.

(iii) In reading the proposal I started to wonder whether the focus of the research will be placed single-mindedly on the modeling of the supply of factors of production, to the exclusion of other problems left open in the earlier project? Among those, the possibility that publicly supplied inputs may compensate for

low producer prices is referred to in the proposal (p. 16) but I would have welcomed some thoughts on methods to be tried out. The same applies to the modeling of expectations: an increasingly crucial question as the research is extended to the explanation of factor supplies (e.g., the rates of return in eq. 2, p. 22 are expectations). Again, R points to the surprising results (in the predecessor project) on the effect of research on supply response (though I myself am not sure that this is so surprising in connection with aggregate supply response), to which one might add the estimated effect of irrigation; both seem to me to argue for closer examination and that may not be wholly a matter of better data.

2. (i) The point made in R on the significance of price data (which in some countries have nothing to do with the prices, or the average price, received by producers) is of such major relevance to the reliability (and the very meaning) of estimated supply responses that I would have liked the proposal to face the question of how one might limit the damage (possibly by dropping countries). The mere reference to poor data (p. 23) is completely unrevealing on this central matter.

(ii) The extension of the earlier research project on the proposed lines requires a good deal of additional data, a major extension of the informational requirement into rather new areas. Cavallo and Mundlak (1982) is one indication of what will be needed, in terms of data and data modeling. I should therefore have welcomed a fuller discussion of data sources, criteria for data acceptance and what is to be done when data are lacking or unacceptable. This might also have reassured me more about the realism of the scale of the proposed work in terms of time and money.

As a mere footnote: the last 3 sentences of the second paragraph, p. 20, are to me incomprehensible.

To conclude: I support the proposal, not least in view of the record and standing of the pilot and the important outcome of the predecessor research. My comments are partly pleas to the proposers and partly suggestions for discussion with them in search of further enlightenment and reassurance.

cc:

Referee's Comments

The Determinants of Aggregate Agricultural Supply

The World Bank Research Program

2/10/87

The emphasis of this proposal is the estimation of the long-run responsiveness of agricultural output to permanent changes in agricultural prices. Two reasons why there is little apparent response to price changes are that (1) large responses require major changes in investment patterns (capital and human reallocation among sectors), which can take a very long time, and (2) these changes will occur only when price changes are perceived to be permanent, which is not often the case. This study will include an investment allocation rule which optimistically will deal with problem (1). This rule is implicitly based on adjustment costs. Problem (2) requires very careful modeling of price expectations, which is not adequately discussed here. Fairly casual references are made to expectations, but no model is presented. For example, when it is hypothesized that prices are endogenous, no mention is made how this will be incorporated into the expectation formation.

My guess is that much of the uncertainty in inferences about price responsiveness comes from difficulties in modeling price expectations. In fact, we approach our noisy data sets with tremendous optimism when we expect them to reveal both the underlying taste and technology parameters, and also the nature of the expectation formation. My

primary suggestion therefore is that this work should attempt a direct confrontation with with expectations issues.

This proposal is an extension of work that is closely related. It isn't clear to me how this proposal differs from this earlier work. Consider the two step supply model that in the short run takes inputs V as fixed:

$$S = S(p,V)$$

$$V = V(p_{-1},p_{-2},p_{-3},\ldots)$$

where p stands for current price and V for inputs fixed in the short run. If the second equation is substituted into the first we obtain

$$S = S(p,p_{-1},p_{-2},p_{-3},\ldots)$$

which specifies the responsiveness of supply to the path of prices, including the effect through V. Obviously, I could estimate the two functions separately, or I could estimate the supply response in one step. Which is better? Is this proposal only to estimate the two functions separately, whereas the former approach used the one step method?

Generally, I would like to see much more sensitivity analyses. For example: Which countries have had the greatest variability in agricultural prices? Do the results depend critically on one or two countries? Is the cross country variability in agricultural prices very closely associated with stage of development? Then do you have enough other variables that also account for development that would explain the shift out of agriculture with capital accumulation? What about the missing data problem? Does it matter how these data are filled in? ...

Other then these general comments, and the specific comments below, the proposal for me is very readable, identifies the major

issues, and is written by very competent people. It seem quite likely that this research would enhance our understanding of the supply responsiveness of agricultural output, though the amount that we can learn from our weak data sets may ultimately be rather limited, no matter how efficiently we process them.

Specific comments

pg, para, ln

i,1. The project is said to seek a "robust answer" to the question: how price-elastic is aggregate crops output. But I can find no discussion of robustness elsewhere in the proposal.

iv,9. There is no magic solution to the inadequacies in the "experiment" associated with multicollinearity. The only remedies are more and better data. The more data sometimes come in disguised form - Mundlak's principal components method is an example. But how does he choose the scaling of the variables. And how can he decide whether it is better to have x_t and x_{t-1} in the equation, or x_t and $x_t - x_{t-1}$? These things matter, but why should they?

11,3 There are two problems with the indirect inference about the supply response from an estimated production function: The method layers approximations on top of each other, and the hypothesis of profit maximization in its simplest form is assumed and not tested. The first point is that the estimated production function has to be regarded at best as an approximation to the true production function. If the supply response is to be well approximated from the derivatives of the production function, the method of fitting ought to assure that

the derivatives of the estimated production function closely approximate the derivatives of the true function. I don't think that this is necessarily the case. Is there any empirical evidence that the supply response can be indirectly inferred from the production function? In a system with both a production function and derived demands for factors, the restriction that the derived demands are derivatives of the production function ought to be approximate not exact.

18,1,4 When it is said that only a part of agricultural output is traded, I assume that what is being said is that some of the commodities that comprise agricultural output are not traded, not that only part of each commodity is traded.

19,0 Is the investment allocation rule (4) a solution to some optimization problem? Is replacement investment part of the picture?

19,0 Surely investment will equate at the margin the rates of return in the two sectors. What then are the rates r and r_N in (4)? Are they rates that would have occurred if investment were not subject to increasing costs? How are these measured?

20,1 The same comments apply to the labor allocation rule.

19-20 Neither the labor allocation rule nor the capital allocation rule takes into account the relative reduction in the agricultural sector that can be expected with capital deepening in the economy as a whole.

22,2 The meat of the proposal is omitted since the "details of the estimation technique are not specified." This makes it pretty hard to comment on the research overall.

Office Memorandum

Date: February 5th 1987

To: Mr. Deepak Lal, VPERS

From:

Ext;=:

Subject: Research Proposal - Agricultural Supply.

I have reviewed the above proposal which is an extension of RPO 673-15, and uses the data base accumulated on that project.

The objective of the study is to learn more about the agricultural supply function, and in particular to explore the often-confounded dynamic structure of response to price. That this is of dominant importance for bank operations at almost every level is perfectly obvious.

I find that the argument presented, in criticism of previous studies and their resuls and in setting forth the theoretical structure and empirical problems of relating data to theory, have just the right blend of analytical insight, understanding of the realities of the framework of production, and econometric efficiency in relating data and theory. On odd occasion I find some reason to question their proposed approach. An example is on page 21 - why are they proposing to ignore trade "in the first runs" ? Similarly the marketing system (I presume institutions such as marketing boards, compulsory purchase arrangements, etc) and the effect of policy on the price ratio are ignored ? But the general tone of competence of the proposal suggests that, although my question is not an idle one, there are very good reasons, not obvious to me, for using this empirical analogue of Occam's razor.

The proposal leaves many issues open. Perhaps the most important one is the process by which farmers formulate expectations about future prices which are relevant for their expected profit function and so for their production and investment decisions. I

would be interesting to have consistency tests on such expectational forms, but, perhaps rightly, none are proposed here.

Data problems, particularly those relating to the measurement of the capital stock, have often tended to be the Achilles heal of production function studies. I suspect that they will be of considerable importance here also, but I speak without detailed knowledge of the results of the 673-15 study. How do they account for the very different practices of maintenance of capital in different countres ?

Overall it is a well thought out proposal. The main researcher is well known (to me as well) and is a proved performer. The propsal deserves enthusiastic support.

Referee Report on the Research Proposal:
The Determinants of Aggregate Agricultural Supply

1. This proposal envisages an extension of an earlier research project ("Supply Response of Aggregate Crops Output"; RPO 673-15). In that study elasticities were estimated using pooled cross-country/time series data, but these estimates were considered as reflecting short-run effects only. It is now proposed to estimate a little model (basically consisting of equations (1)-(9) on pp. 18-21 of the proposal) in which intersectoral factor allocation is made endogenous and which, therefore, is considered to be appropriate for estimating long-run supply responses. The 58-country data base of the previous project will be extended for use in this study. The aggregation level is very high. All agricultural output is lumped together[1]; the equations to be estimated describe a two-sector (agriculture/non-agriculture) economy.

2. I see little merit in this proposal, mainly because I fail to see what policy implications a cross-country study using a two-sector aggregation level can possibly have. We are told that the results can "be used for studying in full the growth process and its economic determinants" and that it is "premature to count all the benefits that might come out of a successful study. It is sufficient to state that they are substantive and non-trivial both from the point of view of policy applications as well as, and not independent of, our understanding of the process." (p. 22). I am deeply sceptical. First, because the proposal discusses specification and estimation and then literally stops. The last sentence simply reads: " .. once the system is estimated, the supply response will be simulated under various exogenous conditions." Secondly, because it is not clear what can be simulated. Relative prices, wages and rates of return, for example, are (at least initially, cf. bottom of p. 20) fixed. How the agriculture/non-agriculture relative price is to be made endogenous remains vague: supply and demand are generated (eqs. (1) and (9)) but are not confronted in a balance equation and, incredibly, in "the first runs, trade will be ignored. Also, the marketing system, and the effect of policy on the price ratio will be ignored" (p. 21). Thirdly, it is hard to believe that someone as knowledgable about agriculture as Mundlak is should seriously propose to aggregate over products (e.g. food and cash crops; tree crops and annual crops); over types of producers (e.g. plantations and smallholders;

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[1] On p. 18 the possibility of a livestock/perennials/other crops split is mentioned. But it is clear that the model would have to change completely to incorporate such a disaggregation.

and over different ecological zones. The proposal implies that all such distinctions are irrelevant: for, e.g., a given change in the aggregate agricultural price the supply response will be the same irrespective of whether the price of, say, rubber or milk has changed. If the heterogeneous components making up the "agricultural sector " really behave as a Hicksian composite that would refute a large body of research on rural product and factor markets, so I would like to see some evidence. Fourthly, cross-country estimates seem as inappropriate here as they were e.g. a decade ago in the case of Kuznets curves. Why an equation explaining the sectoral allocation of investment on the basis of relative rates of return and the relative size of the agricultural capital stock (equation (4) on p. 19) should be assumed to be valid across countries I do not understand, if only because countries differ, of course, widely in the efficiency of financial intermediation. While one can, of course, capture some of these differences in the exogenous variables (and by using dummies), I simply do not see what countries can legiti mately be assumed to have in common as far as this equation is concerned. Similarly, the migration equation (p. 20) is crude (the ratio of the two wage rates is, for example, not the relevant variable in many situations; cf. the Harris-Todaro model) and how inter-country differences in, e.g., access to land of return migrants, and in migration costs are to be allowed for I do not know.

3. Much of the recent work on supply response has focussed on the implications of risk, of tenure arrangements, and of imperfections in rural markets for factors, variable inputs and products. Of this one finds nothing in the proposal. Of the assumption that farmers face horizontal supply curves for variable inputs (e.g. fertilizers, seeds) it is boldly said that it "holds true for the individual firm but not for the industry as a whole" (p. 12). The Bank would have a lot less to do if that were true.

4. In the early parts of the proposal profit maximization is assumed. It is not clear to me whether this assumption will be retained for the simulations. One cannot simply claim that "equation (6) is obtained from an intertemporal optimization" (p. 20). The discussion on pp. 12-13 suggests that the intention might be to assume in the simulation model that profits are maximized subject to factor availability as given by equations (2), (5) and (7) on pp. 19-21. In that case a sector consisting of, e.g., competitive farmers facing a horizontal labor supply curve would be modelled as a single firm, a monopsoni in the labor market, and (quite apart from aggregation problems) this would

be micro-economic nonsense. There is no hint in the proposal that this elementary problem has been recognized; the "introduction of factor supply" is only described as "a necessary step to be made in dealing with industry-wide data rather than firm data" (p. 13).

5. In several places the importance is stressed of making the relative price of agricultural output endogenous. How this is to be done if there is no balance equation and if international trade and the marketing system are (as noted before), at least initially, to be ignored, I do not understand. The demand equation (equation (9), p. 21) illustrates why I consider the chosen level of aggregation as totally inappropriate. In many countries some agricultural commodities are not traded internationally at all and the domestic price adjusts to clear the market, while for other commodities domestic prices are linked to world prices and quantity adjustments (imports of exports) clear the market. Throwing all this together makes the project a meaningless statistical exercise.

6. The theoretical review stresses the importance of expectations formation. What is to be done with this point is (except for the inclusion of an expected price ratio in equation (7), p. 21) never explained.

7. The work program strikes me as odd. All the time consuming work (extending the data base, all the estimation work) is to be done by EPD. The consultant supervises this work, interprets the result and writes the final report. I cannot believe that someone of Professor Mundlak's ability will really need 135 working days for these tasks.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE April 27, 1987

TO Mr. Gregory K. Ingram, Director, DRD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "Stopping High Inflation: Four Case Studies" (Resubmission)

1. I apologize for the delay in REPAC's consideration of this proposal which was due to the slowness on the part of a referee in submitting his report.

2. The revised proposal had been reviewed by three referees, two of whom were the same ones who had reviewed the earlier version. All said that the current version was a much improved one and great efforts had been made to take the referees' comments and suggestions into account in the revision. However, like referee #1, REPAC is still concerned about the empirical part of the proposal, in particular about the proposed attempt to empirically test the various theories related to inflation. The proposal did not sufficiently elaborate on the hypotheses to be tested and did not indicate at all what methods or techniques would be used to test them. Because of this, it was not possible for REPAC to judge the soundness and seriousness of the whole empirical work.

3. In light of the above, REPAC has decided to tranche the project and its funding into two phases. In Phase I, the researchers would be asked to proceed with the theoretical and analytical work and to strengthen that part of the proposal that deals with the empirical testing of hypotheses (elaboration of the hypotheses and of the testing methodology). Upon review of the latter and review of the output of Phase I, REPAC will decide whether to approve and fund the empirical work in Phase II. The budget that REPAC would authorize for Phase I is $15,000, as travel, computing and 12-month research assistance are not necessary in this Phase. This amount is to cover the consultant cost and part of the research assistance cost to be incurred for work in Phase I. For Phase II, the sponsors will be asked to readjust the travel budget because as currently proposed, it seems rather on the high side.

4. Upon acceptance by you and the sponsors of the above REPAC decision, funds will be released for Phase I of the project.

cc: Messrs. S. van Wijnbergen, P. Montiel, M. Kiguel, V. Corbo (DRD)
REPAC Members

14 April 1987

Phi Anh Plesch
REPAC
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Dear Phi Anh Plesch:

Let me apologize for being so slow in responding to your letter of March 10 concerning the revised research proposal "Stopping High Inflations". I have been extremely busy with preparations to leave for) for two and one half months, and I simply had to do a lot of things ahead of this report.

I have not had time to prepare a formal report, but I have reviewed the proposal and find it much improved. Obviously, some changes will have to be made with respect part of the study referring to Brazil, as that case is now one of failure. From the point of view of the study, that failure should improve the possibility of some definitive findings.

Subject only to the reservation in the foregoing paragraph, I now think that the study should be approved.

Sincerely,

Office Memorandum

Date March 19th

To: Phi Anh Plesch, REPAC

From:

Extn:

Subject: Revised: Stopping High Inflation.

The revised proposal is a considerable improvement on the first submission. Alas the authors have not met my main point - namely that it is too soon to assess the sustainability, on which they put such stress, of the programs in their adopted countries. I understand their reasons. I would suggest, therefore, that REPAC does not put any stress on the authors to finish according to their schedule. In practice it would be wise to delay the research operation for at least two years. (Incidentally I think that the rapidly changed situation in Brazil, Mexico and even Argentina has, if anything, underlined the importance of the point made in my original comment.)

It is not clear that the authors have adequately taken on board the enormous problems of the public sector accounts, particularly in Brazil and Argengina, but also in Mexico. However, I am sure they would argue that such Sysiphusean labors are for the country economists and not for them.

In sum, I would not expect wonders from this project, but I do think it is likely that some useful and perhaps provocative insights, albeit highly tentative, will emerge. For that reason it seems, in its revised state, well worth while.

Comment on Research Proposal

"Stopping High Inflations: Four Case Studies"

The topic of the proposal is both interesting and relevant. The presentation of the issues is clear and well articulated. I think that the authors did a fine job in improving the old version taking account of some of the previous referees' comments and suggestions. For example, I agree with the authors (see the memo which accompanies the new version) that the issue of inertial inflation and the role of incomes policy, implicitly stated in the old version, are now given a prominent place in the proposal. This is very important since those who designed most of the disinflation programs referred to in the proposal placed a strong emphasis on price, wage and exchange rate controls as a means to break inflation inertia.

The concern with real interest rates and real exchange rate appreciation in the aftermath of disinflation programs is also well taken. One interesting aspect to study, which is not mentioned in the proposal, is the extent to which substituting common taxes for the "inflation tax" leads to increases in aggregate demand that are either stabilizing or destabilizing depending on whether they affect output or prices. After the Cruzado and the Austral plans, aggregate consumption increased in Brazil and Argentina. Although real wages rose in Brazil, the same did not happen in Argentina. One of the explanations for the increase in consumption is that the inflation tax has a relatively more adverse effect on the income of poor people with a high propensity to consume. Another explanation is that, with low inflation, financing consumer durables purchases becomes more available, thereby increasing their demand.

About the dynamics of the real interest rate, it is useful to notice that even if the anti-inflationary plan is fully consistent and credible and there is no backward indexation, the announcement of lower inflation will generally lead to an increase in the real interest rate. This is due to the increase in the demand for real money balances following the fall in inflationary expectations. In an open economy with a fixed exchange rate, part of the monetary adjustment will occur via an increase in reserves. But, provided domestic and foreign assets are less than perfect substitutes, real interest rates will also rise. The only way the government can prevent this "adverse side effect" is by generating a fiscal surplus accompanied by monetary expansion so as to crowd in private investors. Thus, credibility issues

must be related to the ability of the government to produce a surplus, a far more restrictive fiscal condition than is usually thought.

Moving now to a more general problem, I am still unclear, after reading the two versions of the proposal, about the empirical content of this project and what can be expected from it. Here, the authors also seem to have amended the old version in response to criticism by two previous referees in the sense that:

> "... one wonders what exactly will be tested empirically."

or

> "The proposal is concerned with finding insights into the disinflationary process and not with testing hypothesis."

Thus, the revised version now proposes "empirical studies that test the various theories of inflation inertia" through an analysis of how wage indexation agreements and/or issues of credibility and coordination influence the relation between real wages, inflation and the state of the business cycle. The authors are not too explicit, however, as to the methods or techniques that are going to be used to test the alternative hypothesis. There are some references about using wage and price data to look for evidences of backward indexation, while exploiting the relationship between (ex-post) real interest rates and black market exchange rate premia to test the existence of credibility and coordination problems. But, unfortunately, this is not enough. One needs more explicit references in order to assess the authors' intention to undertake serious empirical work.

For example, it appears to me that some causality tests might be necessary at some stage to show if causality goes from relative price instability to inflation through backward indexation and monetary accommodation, or from fiscal deficits to inflation which, in turn, causes relative price instability.

In my opinion, a sound empirical effort conducive to rich and well-founded conclusions should be the main concern of the project. Otherwise, 83 weeks of staff and consultant time seem rather hard to justify. The description of individual cases is well documented in the existing literature; only a well-organized section comparing the experiences and presenting the stylized facts seems

necessary. On the other hand, one suspects that to "fill gaps in the theoretical literature," the authors will draw on papers they have already written.

RECOMMENDATION: My opinion about this proposal is favorable. Even if modest results were expected from the empirical part, I would still recommend that it be aproved because I consider that the descriptive and analytical parts are also interesting, relevant and very much needed. These, however, are less time consuming and so I would suggest tailoring the project costs and devoted time accordingly or, alternatively approve the whole project with a second disbursement conditional on the submission of a satifactory methodology for the empirical testing of the hypothesis.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

APR 29 1987

DATE April 28, 1987

TO Mr. V. Rajagopalan, Director, EMP

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33483

SUBJECT Research Preparation Proposal: "Factors Conducive to Time Creation of Female Employment in EMENA Region Countries"

Your Department has appealed REPAC's decision of last February regarding its request for funds to help prepare a research proposal on the above topic. The case made in Mr. Al-Khafaji's memorandum of April 14, 1987 was reviewed by the same referee consulted on the original request (his report is attached). REPAC shared the referee's continued doubts about "the rigor with which this project would be undertaken, its staffing, and the extent to which useful policy implications would flow from it." But it also shared his views that the topic and issues have become increasingly important and deserve support. Thus despite its doubts and reservations, it has decided to grant $7,000 towards the preparation of a full proposal that takes the referee's recommendations into account. These recommendations are that the proposal, in addition to providing a review of the relevant literature, should at a minimum indicate: 1) what alternative explanations of women's roles in Arab countries are being explored; 2) what methodology will be used to distinguish among them; 3) how the proposed work will go beyond descriptive statements of women's conditions in Arab countries; and 4) how potential findings could be used to influence policies of that sort the Bank deals with. The sponsor should also seek the advice of Mr. Jacques van der Gaag (acting chief of DRDLS unit) or of Mr. Dennis de Tray (DRD Policy Adviser) on a suitable consultant for this work, and on substantive and methodological issues to be reckoned with in preparing the proposal.

The amount of the grant is less than the $12,000 originally requested because travels to Europe to identify and meet with collaborators are premature at this stage and should be postponed until the full project is approved and funded.

If the above REPAC decisions and recommendations are agreeable to you and the sponsors, the financial authorization and identification code for the project will be issued.

cc and cleared with: Mr. M. Selowsky, REPAC Acting Chairman M.S.

cc: Messrs. A. Al-Khafaji, N. Lindsay, A. Wheeler, M. Boissiere (EMP)
REPAC Members

THE WORLD BANK INTERNATION FINANCE CORPORATION

OFFICE MEMORANDUM

DATE April 21, 1987

TO Mrs. Phi Anh Plesch (VPERS) S-9135

FROM

EXTENSION

SUBJECT Proposal on "Factors Conducive to Female Employment in EMENA Region Countries"

1. I continue to have doubts about the rigor with which this project would be undertaken, its staffing, and the extent to which useful policy implications would flow from it. For example, the sponsors indicate in their methodological discussion on p. 8 that samples will be taken of employers and employed women but it has been long understood that such samples by definition cannot answer questions about determinants of female labor force participation (they contain no information on women who were not employed). However, such reservations notwithstanding, the role of women in development is a priority issue for Mr. Conable and that alone may carry the day.

2. Assuming you decide to reverse my earlier decision you may want to insist that the sponsors abide by REPAC rules and produce a full research proposal that indicates (1) what alternative explanations of women's roles in Arab countries are being explored; (2) what methodology will be used to distinguish among them; (3) how the proposed work will go beyond descriptive statements of women's conditions in Arab countries; and (4) how potential findings could be used to influence policies of that sort the Bank deals with.

3. I would also rule out the trip to Europe. So far as I know one can still call Europe relatively easily, so physical presence there doesn't seem necessary, at least at this stage. Also, I find it difficult to believe that Ms. Joekes is a $300 a day consultant (I recently had to argue hard to convince the Bank to pay a Harvard assistant professor with Ph.D. and several refereed publications $200.00 a day). I would, therefore, suggest that you offer $7,000 for a completed proposal that would include a review of existing work on Arab women's employment. You may want to indicate that travels to identify and meet with collaborators could be a part of the full research project if appropriately justified and if such a project were funded.

4. You may also want to suggest that the sponsors get in touch with Joyce Moock of the Rockefeller Foundation who has a long history of interest in, and contacts with those researching, issues having to do with women and development (as well as a healthy skepticism about much of the earlier work in this area). Other useful contacts would be

Christine Jones of the Harvard Institute for International Development, and Glen Cain of the University of Wisconsin.

Att: Revised Submission Request

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

APR 21 1987

DATE April 20, 1987

TO Mr. Gregory K. Ingram, Director, DRD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "The Impact of Changes in Job Security Regulation in India and Zimbabwe"

1. Following your acceptance of REPAC's decision to fund the above research project at the reduced level of $40,000, the project's identification code and financial authorization are now issued as follows:

i)	Identification Code	674-23
ii)	FY87 Authorization	$18,000
iii)	FY88 Authorization	$22,000
iv)	Total Authorization	$40,000

Please use the identification code in all financial documents and other communications concerning this project, including letters of appointment to consultants.

2. Since the project is expected to be completed on April 30, 1988, according to REPAC's rules it will be closed on October 30, 1988. The sponsor will be required to file a completion report on or before the project's closing date.

cc and cleared with: Mr. D. Lal

cc: Messrs./Mmes. P. Fallon, C. Lluch, S. Kapur, DRD
S. Panickaveetil, M. Tonson, PBD
J. Fernandez, K. Hannemann, ACT
S. Thavamoney, SVPMI
B. Ross-Larson, CON
S. Aiyar, V. Mataac, V. Giannisis, VPERS
A. McAlister, BRDC
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

APR 21 1987

DATE April 21, 1987

TO Mr. Gregory K. Ingram, Director, DRD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "International Comparisons of Labor Costs and the Effect of Wage and Non-Wage Regulations on Exports"

1. REPAC has approved the newly revised budget submitted last week for the above research project. The project's identification code and financial authorization are now issued as follows:

i)	Identification Code	674-22
ii)	FY87 Authorization	$20,000
iii)	FY88 Authorization	$20,000
iv)	Total Authorization	$40,000

Please use the identification code in all financial documents and other communications concerning this project, including letters of appointment to consultants.

2. As the project is expected to be completed on March 30, 1988, according to REPAC's rules it will be closed on September 30, 1988. The sponsor will be required to file a completion report on or before the project's closing date.

cc and cleared with: Mr. D. Lal

cc: Messrs./Mmes. L. Riveros, C. Lluch, S. Kapur, DRD
S. Panickaveetil, M. Tonson, PBD
J. Fernandez, K. Hannemann, ACT
S. Thavamoney, SVPMI
B. Ross-Larson, CON
S. Aiyar, V. Mataac, V. Giannisis, VPERS
A. McAlister, BRDC
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

APR 09 1987

DATE April 8, 1987

TO Mr. Gregory K. Ingram, Director, DRD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "International Comparisons of Labor Costs and the Effect of Wage and Non-Wage Regulations on Exports"

1. The above research proposal sponsored by Mr. L. Riveros has been reviewed by two referees (their reports are attached). As REPAC agrees with both referees that the topic is important, it is willing to support the proposal but on the condition that its budget be revised downwards. The financial allocation for Stage 1 seems too high, considering that most of the data to be collected apparently are already available on World Tables Tapes (according to one of the referees). The amount allocated to travel, and the provision for research assistance time for this 12-month project also appear excessive. As for the category of "miscellaneous expenses," REPAC does not usually fund it for this type of project.

2. REPAC would recommend that the sponsor resubmit a lower budget that takes the above concerns into account. Upon review and acceptance of this new budget, REPAC will give the final approval to the project and issue the financial authorization.

Attachment

cc and cleared with: Mr. D. Lal

cc: Messrs. L. Riveros, C. Lluch, DRD
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE March 12, 1987

TO Phi Anh Plesch, VPERS

FROM,

EXTENSION

SUBJECT Research Proposal "International Comparisons of Labor Costs and the Effect of Wage and Non-wage Regulations on Exports" by Luis A. Riveros

I attach a report on this proposal which could be sent to the applicant, if so desired.

I am concerned then that the applicant has not been hard-headed enough in addressing the question -- what is the essence of the problem? -- when he has come to the econometric formulation. I recommend that further consideration be given to this and that he be invited to re-submit when he has re-considered his formulation of the specification of the problem and his testing procedures.

attachment

Referee's Report on the Proposed Project "International Comparisons of Labor Costs and the Effect of Wage and Non-Wage Regulations on Exports."

The subject of this research proposal -- which is not quite accurately described by the title of it -- is stated to be an examination of the impact of labor market distortions (assumed to be in the industrial sector) on the manufacturing exports of developing countries. There is no doubt that it is an important subject. The applicant accepts the relationship between growth of national income and growth of manufactured exports. A significant and substantial part of the project is the collection of data on labor costs. He then sets out to test econometrically the relation between total labor costs and labor market interventions on the one hand and trade performance on the other.

What worries me somewhat about this proposal is that the applicant does not appear to specify clearly enough the model that he wishes to test. I suggest he specify clearly the following:

(i) Why labor market distortions may be expected to reduce manufactured exports?
(ii) How one can measure these distortions?
(iii) How to test the hypothesis in (i) above?

It is not at all clear to me that his equation (1) picks up the distortion that is the essence of the hypothesis. He appears to vacillate between an intention to test for the impact of labor market distortions (labor costs in manufacturing compared with those elsewhere in the economy) and the impact of labor costs <u>per se</u>. The Krueger model he refers to on pp. 10-11 (including fn 5) was very crude but its one independent variable was designed to pick up these distortions. I would think that the ratio of labor costs in the manufacturing sector to those in the rest of the economy (for similar labor) is something like the variable that should be included.

One further point -- should <u>net</u> manufactured exports (or value added in manufactured exports) be the dependent variable?

March 31 1987

Ms Phi Anh Plesch
Secretary to the Research Projects
Approval Committee
VPERS
The World BAnk
Washington D.C. 20433

Dear Ms. Plesch:

I have reviewed the research proposal "International Comparisons of Labor Costs and the Effects of Wage and Non-Wage Regulations on Exports". Although the proposal is short and not very informative, I believe that this is an important topic. I recommend a positive response, with the provision that the author is asked to justify more clearly the budged. It seems to me that it is on the high side.

I am enclosing my report. I will appreciate it if you can see that my fee is processed.

Sincerely,

March 1987

Referee Report: "International Comparisons of Labor Costs and the Effect of Wage and Non-Wage Regulations on Exports"

This short proposal deals with an interesting question: Are labor market regulations related to export performance in the developing nations ? This is by all means a sensible question to ask. The answers obtained from this type of study may in fact be useful as guides to policy. In general one would expect that in order to succesfully compete in today's changing international enviroment a country should have quite a bit of flexibility in its labor market.

Although the question is sensible, the research proposal is somewhat sloppy. First of all there is no clear explanation why 19 countries are being chosen. Why not 16 ? Or 21 ? Second, the review of previous work on the subject has been incomplete. The OECD, for example, has done some studies that discuss in detail isssues related to labor market flexibility and its relation to economic performance. Also, the NBER project on labor market behavior and the external sector directed by Anne Krueger dealt with this issue in a fairly detailed fashion. (see for example the summary volume Trade and Employment in Developing Countries by A.O. Krueger; see in particular chapter 7). A non trivial question,

then, is to what extent the current study will provide significant new materials.

The proposed stages of the project are not very clearly explained. For example, with the exception of a few series, the data subject to collection in stage one is ready available on the World Tables tape. Also the excesive focus on naive export supply functions seems inadequate. It is true that the great majority of export studies have not included wage rates as explanatory variables. However, from a theoretical perspective this is not necessarily a mistake. It is not difficult to generate general equilibrium models with well specified goods and factor markets, that will result in reduced forms for the supply of exports that will not include the wage rate as a right hand side variable. In that regard, it is important that in the project a formal model is derived and that the authors make serious efforts to develop their empirical work within a well established and coherent theoretical framework.

One may ask the question on why this study will restrict it self to the relation betyween labor market regulations and exports. Why not include other factor markets. What about rigidities in the market for intermediate inputs?

Since the report is rather short and cryptic it is hard for this reviewer to make further comments. It is my preliminary judgement, however, that this is a worthwhile project. The ammount requested, however, seems to be clearly on the high side.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE April 8, 1987

TO Mr. Gregory K. Ingram, Director, DRD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "The Impact of Changes in Job Security Regulation in India and Zimbabwe"

Having benefitted from the comments of two referees (see their reports attached), REPAC has reviewed Mr. Fallon's research proposal on "The Impact of Changes in Job Security Regulation in India and Zimbabwe." Based on this review, it has decided to approve the proposal but at a reduced budget of $40,000 (i.e., $8,000 less than requested). This is because it thinks that the submitted budget contains excessive allowances for research assistance, domestic travel and computing, and unallowed items such as "miscellaneous expenses."

As soon as you indicate your acceptance of REPAC's funding decision, I shall issue the financial authorizations and an identification code for the project.

Attachments

cc and cleared with: Mr. D. Lal

cc: Messrs. P. Fallon, C. Lluch, DRD
REPAC Members

Background

1. The project proposes to examine the effect of regulations relating to job security on labor productivity and demand in India and Zimbabwe. The regulation in question is the requirement that firms must submit requests for job termination to the Government. The authors propose to undertake econometric estimation of micro-level production functions and labor demand functions using pooled data. Their hypothesis is that the introduction of this regulation has reduced labor productivity and demand.

Reservations

2. I have two reservations. First, the presumption appears to be that this regulation is fully effective. Some evidence is presented for Zimbabwe to this effect but none for India. It would be useful to know as a first step whether the number of firings has decreased, whether the Government is automatically clearing requests or not, and whether there are other observable changes -- use of temporary labor, for example -- in firm behavior. A relatively simple descriptive analysis may suffice for this. Second, the estimation technique assumes that the wage is fixed exogenously by legislation or union power. Apart from questions concerning the factual accuracy of this assumption, it also raises a question about the interpretation of the results in a welfare sense. Assuming the suppliers of labor derive some benefit from job security, wage differentials would develop in a free market between those firms offering secure jobs and those firms not doing so. The effect of job security regulations on productivity and labor demand would then be much smaller than in a situation where wages are determined exogenously. In short, the proposal would be measuring the joint effect of job security regulations and minimum wage legislations and the results would not apply in other market conditions. The policy implication, therefore, remains unclear.

Recommendation

3. The present proposal should be rejected on the grounds that it provides limited policy guidance. The authors could be encouraged to (i) examine direct evidence of the effectiveness of the job security regulation; and (ii) consider ways of differentiating between the costs of job security regulations and those arising from minimum wage legislation or union power. I am not sure, however, whether I would see this as a high priority research analysis.

The Impact of Changes in Job Security Regulation in India and Zimbabwe. (Fallon).

Referee Report

This proposal is well constructed and addresses a pertinent question. I have no hesitation in supporting it.

The issue is whether the provision of job security legislation significantly reduces the demand for labor, and the objective of the research is to quantify the employment effects of such legislation for two case studies, India and Zimbabwe. This seems to me to be precisely the sort of research which would assist in the Bank's policy dialogue with borrowers. Concerned with unemployment and job losses, governments are naturally inclined to legislate job security; yet it is indeed quite probable that this accentuates the problem which induces the legislation. Hence, such legislation may well be a classic case of avoidable policy error. Yet to be convincing, Bank advice needs to be supported by solid research evidence: this study proposes to provide it.

The researchers are well upto the intellectual task they are setting themselves, and the methodology is appropriate. I have, however, modest reservations on both the theory and the econometrics. I wish to stress that these reservations are not, in my view, sufficiently substantial to warrant delay, though the researchers may wish to take them into account.

Theory:

On page 8 the authors concede that inter-temporal aspects of labor allocation (notably skill formation), may generate circumstances in which permanent labor is more productive than temporary labor. They assert that this does not provide a basis for government intervention to legislate on security of job tenure because "to the extent that this would be cost effective, firms should already have adopted such practices". This argument against legislation sounds right but isn't. First, there are many situations in which an agent can benefit by choosing to bind himself so as to preclude some future actions. In the labor market individual firms can and do behave in such a way by offering long-term contracts to individual employees. The classic example of this is, of course, the Japanese labor market, where long term contracts have delivered very low labor turnover which has in turn delivered rapid skill accumulation. The rationale for such contracts is that they offer employees the security which encouurages them to part-finance the accumulation of firm-specific skills. However, the contract only succeeds in providing security if the costs to the employee of contract enforcement are small and the process of enforcement is reliable. In developed economies, with labor unions and a non-political legal process this is generally the case. In many developing countries neither of these conditions apply. The employee simply cannot be provided with job security by an individual contract because there is no credible means by which the employee can enforce the contract. In such a case, job security legislation enables, or more generally lowers the

cost of, contract enforcement. There are thus, a priori, conceivable circumstances in which such legislation might be beneficial. This can be the case even if it induces a once-and-for-all reduction in employment.

Method:

(1). The cutting edge of job security legislation on the demand for labor is recruitment rather than employment. The short-to-medium run consequences for employment (which is the time frame the researchers are proposing to investigate) are really quite complicated. In effect there is a tax on involuntary quits. The firm may take many years to adjust to the new steady state employment level, but the decision variable it must use to effect this adjustment is recruitment.

(2). In view of (1), the use of a policy dummy variable switched on in the year of the legislation may be inappropriate to explain the evolution of both employment and recruitment, but especially the former. Surely, what is needed before the econometrics is a theoretical model of the dynamic adjustment process. The authors half have this on pages 22-23. There they introduce a sluggish adjustment process, (lambda), and allow that job security legislation increases the sluggishness of adjustment. However, there is not one adjustment process in the labor market but two, namely recruitment and firing. Job security legislation taxes only one of these, inducing greater reliance on the other. This distinction really does matter: for example, in a seriously declining industry in

which gross recruitment is neglible, job security legislation will inevitably increase employment for many years; whereas in a rapidly growing industry it might reduce employment very quickly.

(3). The use of a dummy variable in time series econometrics should in any event be treated with some caution. It is simply no good showing as the authors do at present (pages 24-25) that the introduction of a dummy coincident with the legislation is statistically significant, and hence superior to one in which the dummy is omitted. The feature that must be demonstrated is that this is indeed the correct periodisation: for example, if the dummy were specified for a different year would it encompass the authors' specification? For the classic example of this sort of error see Hendry's famous demolition of Friedman and Schwartz.

Points of Detail:

(1). On page 11 the authors note that the Indian legislation only applied to firms employing more than 300 workers. This yields interesting predictions which they might find worth investigating. In particular, we can distinguish conceptually three classes of firm, those over 300 and therefore constrained in firing, those currently below 300 which had planned to expand above 300, and all others. Firms in the middle category face a different set of constraints than those in the first category and hence should behave differently, though still employing fewer workers. If this could be

demonstrated it would substantially improve the conviction carried by any results.

(2). (page 15). It is a little worrying that no distinction can be made empirically between permanent and temporary workers because we would indeed expect powerful substitutions towards the latter. If the productivity of temporary workers is sufficiently lower that that of permanent workers it is even conceivable that total employment might rise (though this would of course be undesirable).

(3). The Zimbabwe case study is manifestly, and reasonably second fiddle to the Indian Case. There are, I think, serious problems of interpretation of results in the Zimbabwean case for two reasons. First, several other major changes were coincident with the job security legislation. As the authors mention, there was an increase in minimum wages. The authors might retort that this is taken care of by the mean wage term in the econometrics, but it isn't really. A minimum wage alters the optimal wage structure and hence can produce quite different employment effects from the same change in the mean wage induced by other exogenous events. Hence, there is a problem of attribution of any temporal dummy variable effects. Secondly, (and this is a general point), firms might reasonably anticipate some legislative changes. Zimbabwean firms would not have needed to have superhuman powers of premonition to anticipate both the demise of the Smith regime and that its replacement would involve a different employment environment.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE April 6, 1987

URGENT AND CONFIDENTIAL

TO REPAC Members

FROM Phi Anh Plesch, Secretary, REPAC

EXTENSION 33484

SUBJECT Selection of Reviewers for Evaluation of Completed Research Project

Research Project: Agricultural Pricing Policies in Senegal (RPO 673-08)

Sponsoring Department:	CPD
Sponsoring Staff:	A. Braverman (AGREP)
Amount Authorized from RSB:	$46,200
REPAC Panel Chairman:	S. O'Brien (WANVP)

Internal Reviewer:	External Reviewer:
Dennis Anderson (WAPDR) C. Ranade (DRDDS) jointly with S. Jammeh (CON, DRDDS)	Thomas Reardon (IFPRI)

The suggested list of reviewers is being circulated to you on a "no objection" basis. Any objections or suggestions for change should be communicated to my office, preferably by phone, within two working days from the date of this memorandum.

OFFICE MEMORANDUM

DATE: March 17, 1987

Urgent and Confidential

TO: REPAC Members

FROM: Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION: 33484

SUBJECT: Selection of Referees

Research Proposal: Land Tenure, Rural Credit and Agricultural Production in Sub-Saharan Africa

Sponsoring Department: AGR
Sponsoring Staff: S.E. Migot-Adholla, P. Hazell
Amount Requested: $371,140

REPAC Subcommittee: D. de Tray, G. Pfeffermann

Internal Referee:

Gobind Nankani (LC2DR)

External Referees:

Michael Lipton (Sussex)
Arne Bigsten (Oxford)
Mark Gersovitz (Princeton)

The suggested list of referees is being circulated to you on a "no objection" basis. Any objections or suggestions for change should be communicated to my office, preferably by phone, within two working days from the date of this memorandum.

OFFICE MEMORANDUM

DATE: March 13, 1987

Urgent and Confidential

MAR 16 1987

TO: REPAC Members

FROM: Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION: 33484

SUBJECT: Selection of Referees

Research Proposal: Secondary Markets and Debt Reduction Schemes for Highly Indebted Countries

Sponsoring Department: CPD
Sponsoring Staff: M. Selowsky
Amount Requested: $68,750

REPAC Subcommittee: V. Corbo
L. Squire (subject to his acceptance)

Internal Referee:

Dimitri Vittas (IND)

External Referee:

Professor Alexander Swoboda
(Graduate Institute for
International Studies - Geneva)

The suggested list of referees is being circulated to you on a "no objection" basis. Any objections or suggestions for change should be communicated to my office, preferably by phone, within two working days from the date of this memorandum.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

MAR 11 1987

DATE March 10, 1987

TO Messrs. F. Levy and W. Byrd, AEA

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Project: "Collaborative Research on Chinese Collective Industry" (Ref. No. 674-05)

1. You have submitted a request that REPAC 1) release the second tranche of funding for RPO 674-05, "Collaborative Research on Chinese Collective Industry," and 2) consider augmenting the project's budget by an additional sum of $16,000. That request and accompanying documents have been reviewed by Mr. D. de Tray, acting for the two-member REPAC subcommittee charged with that task. His report is attached. REPAC accepts his recommendation to approve the release of the second tranche for the project, which amounts to $44,000. As for your request that the project's original budget be increased by $16,000, a separate case needs to be made and formally submitted to REPAC for its consideration. REPAC will review it in accordance with its rules on supplementary funding (see paragraph 15 of the enclosed Operational Manual Statement No. 970).

2. The revised financial authorization status of RPO 674-05 is as follows:

	Authorizations	
	Previously	Now
i) FY86 Authorization	$20,000	$ 20,000
ii) FY87 Authorization	$40,000	$ 84,000
iii) Total Authorization	$60,000	$104,000

3. The original proposal stated that the project was expected to be completed by December 1987. According to REPAC's rules (see paragraph 17 of OMS 9.70), it will therefore be closed on June 30, 1988 unless you wish to revise the completion date now in light of the modifications in the work program brought about by REPAC's decision to tranche the project and its funding into two phases.

PAP/ea

cc and cleared with: Mr. Deepak Lal

cc: Messrs./Mmes. G. Kaji, B. Merghoub, E. Monaghan, AEA
K. Hannemann, J. Fernandez, ACT
V. Mataac, VPERS
REPAC Members

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE March 2, 1987

TO Mrs. Phi-Anh Plesch (VPERS)

FROM Dennis de Tray (DRDDR) S10-051 JT

EXTENSION 3-3480

SUBJECT China Collective Industry RPO

1. On January 14 Marcello Selowsky and I received a memorandum from William Byrd and Alan Gelb requesting that REPAC (1) release the second tranche of funding for RPO 674-05, "Collaborative Research on Chinese Collective Industry," and (2) consider augmenting the project's budget by an additional $16,000. Their request was accompanied by documentation to show that they have met the conditions set out in your memorandum to Gautam Kaji dated May 5, 1986. Principal among these conditions was "a reworking of the analytical part of the proposal" by the project's chief consultant, Mr. Jan Svejnar.

2. About a week ago Alan called me asking if Marcello and I had been able to look over his and Byrd's request. He stated that he was leaving on mission to China the weekend of February 14/15 and that it would be extremely helpful if he had some indication of our decision before his departure. Marcello was unable to respond to Alan's request on such short notice but indicated that he would abide by my decision.

3. I told Alan that any request for an increase in the project's funding would have to go through the Research Administrator's office. I further indicated that REPAC rarely approved such requests. He replied that he was quite willing to separate the two requests and would be happy to settle for a ruling on the second tranche at this time.

4. I reviewed all of the materials sent to me by Messrs Byrd and Gelb last week and am of the opinion the project sponsors have met the conditions established for release of the second tranche. Mr. Svejnar has provided an framework for analyzing the workings of Chinese collective firms, and the project's data collection phase is proceeding very well. I remain somewhat skeptical about the project's ability to test the more subtle hypotheses discussed by Svejnar and by Gelb but I am convinced that overall it will yield a number of worthwhile findings.

5. Many of the project's expected findings remain in the grey area between descriptive statements and hypothesis testing. While one might wish it otherwise this is a reasonable first step in a study of institutions about which we know very little. I have pressed Alan to consider whenever and wherever possible "fundamental" policy hypotheses (those that would allow, for instance, the Chinese government to sequence policy changes in the area of industrial management) and he has agreed to do so.

6. Based on my review of project output to date and my conversations with Alan Gelb I hereby approve the release the second tranche for RPO 674-05.

DdT:nr

FORM NO. 75
(6-83)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: 3/10/87

NAME	ROOM NO.
PAC Members	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		URGENT

REMARKS:

Please take special note of the section on evaluation.

FROM:	ROOM NO.:	EXTENSION:
Phi Anh Plesch TAP	S-9135	33484

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE March 10, 1987

Confidential

TO REPAC Members

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Minutes of REPAC Meeting Held on February 5, 1987

REPAC held a meeting on February 5, 1987. All members were present except for Mr. Singh. Messrs. Dervis and Khan had earlier resigned from the membership and thus did not attend. Mr. B. King, LRS Acting Vice President, was also present as an observer.

An individual note was circulated to each REPAC member stating the present status of evaluation of the research projects under his responsibility.

Proposal: "Capital Flight from Latin America"

Mr. O'Brien introduced the proposal by stating that the subcommittee had not felt it necessary to meet with the sponsors to discuss it with them. He noted that none of the referees had recommended straightforward approval of the proposal. Their concerns, as summarized in the subcommittee report, showed that the proposal suffered from fundamental flaws: apparent inadequacy of linkages between the three parts of the study, weaknesses in the theoretical studies in which issues seemed to overlap, lack of clarity concerning the methodology for analyzing the causal relationships in the case studies, numerous problems of definitions and measurements, and poor choice of countries for the case studies. Mr. Selowsky, the other member of the subcommittee, stressed the complete absence of a welfare economics approach to the study which in his opinion would have been its most innovative and interesting contribution in this area. Both subcommittee members concluded that as it stands the proposal would not be of much use and thus should not be supported.

To the question raised concerning the expression of LAC support on the proposal's form, a member said that had been based on an earlier draft of the proposal that was much smaller and seemed more useful. He and LAC colleagues were disappointed that the present version had been blown out of proportion, with unnecessary emphasis placed on measurements and not enough focus on policy-oriented questions.

Mr. Lal, noting all reviewers had said that the topic was important, asked whether anything from the proposal could be salvaged that was worth supporting. But members saw technical problems with each of the proposal's components as noted earlier by the subcommittee. And

other than a strong emphasis on measurements of capital flight, they did not see any clear policy relevance that argued in favor of the proposal. They felt that its value added would be minimal in view of the burgeoning literature on the subject. Mr. Selowsky suggested that some sub-areas might be worth studying, such as the experimental schemes used by various countries to repatriate capital. But members were unanimous in declining to make any formal suggestions for revision and resubmission. They recommended to simply turn down the proposal as it stands.

Research Proposal: "Changes in Employment and Real Wages during Recession and Adjustment: The Republic of Côte d'Ivoire, 1979-1984"

The proposal, which was a revised version of an earlier one turned down last year by REPAC, was introduced by Mr. Pfeffermann. He said that all reviewers agreed that the sponsor had made a bona fide attempt to address earlier criticisms and to strengthen the proposal. But the current proposal still raised some concerns: there were doubts about the quality of the data to be used; there was an apparent lack of a theoretical framework of the labor market to guide the inquiry, which looked like a "fishing expedition" into the mass of whatever data was available; the institutional issues seemed to be overlooked; questions were raised about the predictive value and transferability of the research's findings; the role of Mr. Lavy was not clear; the research did not seem to involve anyone that is knowledgeable on Côte d'Ivoire; and the cost appeared high. On the positive side, Mr. Pfeffermann cited the existence of a rich unexploited data set and the quality and dedication of the Ivorian staff from the agencies involved. If anything, the research could help improve their survey design and data collection.

Some members noted that some of the above questions were already addressed by the sponsors (in separate memoranda), who further were thought to have made a genuine effort to be responsive to earlier criticisms and improve the proposal. They thus asked where the doubts still lay. Mr. Pfeffermann answered that the proposal lacked an economic story of the labor market as it did not intend to test behavioral hypotheses. He said that the earlier proposal had been criticized for not dealing satisfactorily with the main topic, i.e. the effects of economic shocks and adjustment on wages and employment. But this proposal, in his view, swung too far the other way by concentrating on that aspect and not enough on the analysis of the labor market itself which could have resulted in more policy implications. Mr. Lal remarked that pages 9-10 of the proposal listed a number of questions to be addressed that would indeed require an understanding of the labor market. Another member however stated his view that if the sponsor had been fully responsive to earlier criticism in revising the proposal, one should be careful not to look for yet another research project by adding new concerns that would substantially alter the substance and intention of that proposal. He would look at this proposal simply as a sophisticated statistical description exercise. To the extent that data

were available and the intention was to use the LSMS approach, it could be a useful case study that would further guide work on LSMS. Other members agreed with these views, noting LSU staff's involvement in the UN-sponsored program to monitor structural adjustment programs in developing countries. With regard to this, Mr. O'Brien said there were in fact two UN programs: a) one that will use LSMS data to assess the social cost of adjustment in ten countries that have adopted structural adjustment programs and b) a UNDP-financed program to monitor African development and policies in general with the participation of SOA from the Bank. LSU Unit is on the steering committee of the first one and is heavily involved operationally in it, especially in Côte d'Ivoire where the work is already well advanced. To the question whether this proposal would duplicate that work, he answered that it would complement rather than duplicate.

Having agreed to accept the proposal as is, i.e. a sophisticated statistical description exercise, members debated the issues of cost and data quality. As the worth and success of the project would depend on the quality of the data and of the model to be used, they would recommend phasing the work and its funding into two phases. In Phase I the researchers would be asked to do a pilot run of the data and model and to report on its results to REPAC. The approval and funding of Phase II would depend on the review of these results. As to the project's cost, members thought the budget proposed by the sponsor contained some items that were either inflated or unnecessary (e.g. Mr. Lavy's participation and related expenses). After having made downside adjustments, they arrived at a figure of $85,000 as the sum they would be willing to authorize for the whole project (phases I and II).

Pre-Proposal Brief: A Comparative Study of Tax Reform in Developing Countries

After giving a brief account of the history of this brief, Mr. Lal said the Review Board had approved the third version as constituting the basic outline of the future study. The study, he noted, will have a first-rate team of consultants and Board members had no doubts that they can handle the various technical aspects of the subject at hand. Some doubts remained as to whether they would be able to incorporate the political economy issues in the study. But the Board felt strongly they should be encouraged in developing the full proposal and would insist on discussing the draft outline and country guidelines when these are ready and before the proposal is formally presented. Mr. Linn, a member of the Review Board, added that the consultant team included excellent, technically well-equipped members who had been the architects of many tax reforms in developing countries (e.g. G. Mclure and M. Gillis). They will however need to get clear terms of reference to make sure that the particular objectives the Bank sets for this study be scrupulously followed. There will be also the need to closely monitor the preparation work in its early phase, and not to wait until it is too far down the line.

REPAC members however had a less sanguine view of the brief. They endorsed the Board's recommendations regarding the direction that the proposed comparative study should take. They agreed in particular, with one member expressing reservations, that the study should be focussed on the political economy of tax reform. But given this focus and the repeated insistence of the Board on the importance of this component, they did not think that this had been properly reflected in the brief. They found that the section on the political economy of tax reform (section II of the brief) was poorly and insufficiently elaborated and as such could not be acceptable to them. They disagreed with the opinion of Messrs. Lal and Linn that a) the brief should be viewed simply as constituting a broad outline and definition of the areas to be studied, their relevance to the Bank and the priorities that should be assigned among them; and b) that one should reserve a more detailed and rigorous review for the full proposal, with the assurance that the Board will closely look at it in the draft stage. They said that not only the brief but also the long history of the brief gave them causes for concern about the motivation and competence of the research team in dealing with the political economy issues. They strongly recommended that the relevant section of the brief be significantly expanded to provide a more solid basis on which they could confidently form their judgment. They were also not clear as to what the preparation money would be used for, how much of it precisely was needed, and who would be responsible for the preparation work. They therefore would require that the sponsor submit a detailed budget along with a statement about the persons and tasks involved in the preparation work.

Evaluation

Mr. Lal summarized the conclusions from Professor Srinivasan's report on the evaluation of Mr. Pyatt's research projects. He said that Mr. King disagreed with some of those conclusions. All the relevant materials and correspondence on the subject, copies of which were sent to REPAC members for their information, would be discussed by the RPC at its upcoming meeting. Mr. Lal asked whether REPAC had any views to convey to the RPC on that matter. From the ensuing discussions, the following points emerged that directly related to the problems of procedures and process:

i) While recognizing that there had been regrettable administrative lapses in the handling of Mr. Pyatt's case, members disagreed with Mr. King that a generic review of the current evaluation procedures was warranted. They noted that, except for Mr. Pyatt, none of the other project sponsors whose projects had been evaluated had complained about these established procedures. Further, as a result of Mr. Pyatt's complaints, REPAC had already introduced an appeal procedure whereby any project sponsor who cannot resolve his differences with the

panel chairman may submit his case to the whole REPAC for review.

ii) Members also recognized that the strict application of the rule granting anonymity to reviewers might raise some misperceptions about a system that is necessarily not absolutely transparent. To avoid these misperceptions, they have decided that henceforth the selection of referees, both internal and external, should have the concurrence of all REPAC members.

iii) To further smooth the process, the project sponsor should be given a chance to respond in writing to the reviewers' reports before the panel chairman drafts his overall evaluation report. If judged necessary by the latter, the sponsor's response should be sent back to the reviewers for further review.

iv) As to the content of the overall evaluation report, it was understood that it should not necessarily be a strict summary of the reviewers' reports. The panel chairman may also incorporate his own views but to the extent possible proper attribution should be made as to their origin, especially when they differ markedly in substance from those of the reviewers.

PAP/ea

cc and cleared with: Mr. D. Lal

OFFICE MEMORANDUM

DATE March 3, 1987

TO Mr. G. Edward Schuh, Director, AGR

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "Book on Economics of Rural Organization in Developing Countries"

In reference to your February 25 memorandum, I regret to inform you that REPAC stands by its earlier decision to fund the above proposal only on the condition that the proposed book be a newly written monograph on the Economics of Rural Organization in Developing Countries. If the book should consist chiefly of published papers, the sponsor should consider submitting it to the Bank's Editorial Subcommittee for publication, along with a request that it provides the necessary resources to help put it into shape. If the project involves new research, the sponsor should specify the nature of that research and precise the resource costs involved. Then REPAC will be willing to consider whether to support it.

cc and cleared with: Mr. D. Lal

cc: Messrs. A. Braverman, T. Bertrand
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: February 25, 1987

TO: Ms. Phi Anh Plesch, Secretary, REPAC

FROM: G. Edward Schuh, Director, AGR

EXTENSION: 61755

SUBJECT: Research Proposal: "Book on Economics of Rural Organization in Developing Countries" by A. Braverman and J.E. Stiglitz

Thank you for supporting the concept of this book and recognizing its value and contribution. We also agree that a newly written monograph will be superior to the current proposal. However, given both Joe's and Avi's commitments for the next several years it is not a feasible project.

We think, however, that we did not clarify enough in the proposal the value of the book in integrating old material that appear in several articles as well as in producing new material. Besides editing old articles and surveying empirical evidence, the book will include about 150 new pages, some of integrative nature and some new research. It is our judgement that this book is of high value now since there is a felt need to further open and solidify new approaches to economic development. It will enable both students and development economists to see the overall approach utilizing the economics of information and incentives in analyzing rural organizations and assessing credit, tenancy and land reforms. In particular, we find the benefit to cost ratio for producing this book quite high and, therefore, again request REPAC's support.

Thank you for your consideration.

cc: Mr. D. Lal, REPAC members
Messrs. Bertrand, Braverman (AGREP)

OFFICE MEMORANDUM

FEB 27 1987

DATE: February 25, 1987

TO: Mr. Gregory K. Ingram, Director, DRD

FROM: Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION: 33484

SUBJECT: Research Proposal: "Changes in Employment and Real Wages during Recession and Adjustment: The Republic of Côte d'Ivoire, 1979-1984," Phase I

1. Following the approval by REPAC of the budget submitted by Mr. van der Gaag for the pilot study to be undertaken in Phase I, the above project's identification code and financial authorization are issued as follows:

i)	Identification Code	674-21
ii)	FY87 Authorization	$28,400
iii)	FY88 Authorization	$28,400
iv)	Total Authorization	$56,800

Please use the identification code in all financial documents and other correspondence on the project, including letters of appointment to consultants.

2. Approval of and release of funds for Phase II will depend on the review of the results from this pilot study. These are expected to be presented to REPAC sometime in August 1987.

cc and cleared with: Mr. D. Lal

cc Messrs./Mmes. J. van der Gaag, D. de Tray, J. Lowther, DRD
S. Panickaveetil, M. Tonson, PBD
K. Hannemann, J. Fernandez, ACT
S. Thavamoney, SVPMI
B. Ross-Larson, CON
S. Aiyar, V. Mataac, V. Giannisis, VPERS
A. McAlister, BRDC
REPAC Members

OFFICE MEMORANDUM

FEB 2 6 1987

DATE February 19, 1987

TO Mr. Gregory K. Ingram, Director, DRD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "Economic Policy Analysis of Household Level Data"

1. Following Mr. van der Gaag's acceptance of REPAC's funding decision with respect to the above proposal, the project's identification code and financial authorization are issued as follows:

(i) Identification Code	674-19
(ii) FY87 Authorization	$40,000
iii) Total Authorization	$40,000

Please use the identification code in all financial documents and other correspondence related to the project, including letters of appointment to consultants.

2. Since the project is expected to be completed on September 30, 1987, according to REPAC's rules, it will be closed on March 30, 1988. The sponsors will be required to file a completion report with the Research Administrator's office on or before that closing date.

PAP/ea

cc and cleared with: Mr. D. Lal

cc: Messrs./Mmes. D. de Tray, J. van der Gaag, J. Lowther, DRD
S. Panickaveetil, M. Tonson, PBD
K. Hannemann, M. Herndon, ACT
R. Pearson, SVPM1
B. Ross-Larson, CON
S. Aiyar, H. Cortes, V. Mataac, VPERS
A. McAlister, BRDC
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

FEB 25 1987

DATE February 24, 1987

TO Mr. Gregory K. Ingram, Director

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "The Footwear Industry in Developing Countries and How It Adjusted to Non-Tariff Barriers to International Trade"

1. Mr. de Melo has submitted a revised outline for the proposed monograph on the above subject based on the reduced budget of $100,000 conditionally approved by REPAC. According to REPAC's terms of release of the funds, the outline should be cleared by the original subcommittee. Since the two members of that subcommittee are not presently available (Mr. Dervis has resigned from REPAC and Mr. Singh is absent on Bank mission until mid-March) and given the sponsor's request for urgent consideration, the revised outline has been reviewed by the Chairman of REPAC, acting on behalf of the subcommittee. Following the review of this document and of the written statements of approval from the regional economists for Brazil and Korea, the revised proposal is now approved and the release of funds authorized.

2. The project's identification code and financial authorization are issued as follows:

i)	Identification Code	674-20
ii)	FY87 Authorization	$10,000
iii)	FY88 Authorization	$90,000
iv)	Total Authorization	$100,000

Please use the identification code in all financial documents and other correspondence on the project, including letters of appointment to consultants.

3. Since the project is expected to be completed on December 30, 1988, according to REPAC's rules, it will be closed on June 30, 1989. The sponsor will be required to file a completion report with the Research Administrator's office on or before the project's closing date.

cc and cleared with: Mr. D. Lal

cc: Messrs./Mmes. J. de Melo, M. Finger, J. Lowther, DRD
S. Panickaveetil, M. Tonson, PBD
K. Hannemann, M. Herndon, ACT
R. Pearson, SVPM1
B. Ross-Larson, CON
H. Cortes, S. Aiyar, V. Mataac, VPERS
A. McAlister, BRDC
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE February 18, 1987

TO Mr. K. Dervis, EMNVP and Mr. I. J. Singh, ASPID

FROM Jaime de Melo, DRDIE

EXTENSION 33972

SUBJECT Research Project on the Footwear Industry in Developing Countries and How it Adjusted to Non-Tariff Barriers to Trade

1. This is to request your clearance (to be sent to the Research Administrator) on the attached revised outline for a footwear monograph. As you may recall, in May 1986, we forwarded a request to REPAC for $231,000 for research on the above topic. In its memorandum of October 8, 1986, REPAC responded with a recommendation to the VPERS for a study for $100,000 subject to the following two conditions:

(1) written approval from the Brazil and Korea divisions;

(2) approval from the REPAC subcommittee on a revised outline to reflect reduced funding;

(3) Carl Hamilton be involved in the research.

2. Owing to difficulties beyond my control (e.g. travel, etc...), it has taken almost five months to secure written approval from the Brazil division. Both clearances are now in hand (see attachments). I would appreciate your promptest approval on the attached outline because Carl Hamilton has organized a three week stay for Alan Winters and myself at the IIES in Stockholm starting April 3, 1987. The workshop is to bring us together primarily to work on the footwear project and NTBs. Hence the urgency. I also note that we always intended to involve Hamilton in the research.

3. The revised outline differs from the previous one in three respects. First we have eliminated firm interviews both because we have insufficient funding and because of their potential sensitivity for Bank-client relations. Second we are planning to do more work than before on the economics of VERs from the developing country side (Chp. 3). For instance we want to analyze the foreign exchange and efficiency implications of alternative quota allocation mechanisms used in practice [e.g. Korea uses a two-tier -- basic + open -- quota allocation system]. Third we intend to commission small studies (about $5,000 each) to examine how producers respond to policy shocks (Chp. 6). Urata (Japan), Pinto (Brazil) and Bark (Korea) have expressed interest.

4. The attached outline is, of course, at best tentative. No doubt, there will be dead ends in some areas of investigation so the outline will be modified.

5. In spite of having sought funding for this project for over two years, we still have some enthusiasm to carry out the research and have made several efforts to secure data for the analysis. Keep our remaining enthusiasm alive by responding rapidly. Thank you.

Attachment

cc: Mr. D. Lal, Ms. P. Plesch, VPERS; Mr. G. Ingram, DRDDR; Mr. J. M. Finger, DRDIE; Mr. T. Bark, Mr. C. Hamilton, Mr. L. A. Winters

JdeMelo:jm

Chapter Outline

Part 1

1. The Footwear Industry in Perspective

1A. Significance of the Footwear Industry in DCs and LDCs

- Employment and size
- Technology and Industrial Structure
- Cross-country comparisons of shifts in productivity and factor costs.

1B. Foreign Exchange Earnings for Developing Countries

- Low import content
- High value-added

Appendix: Characteristics of Footwear Technology

Ex ante range of capital/labor substitution in injected and built up footwear (at the process and sub-process levels).

2. Shifting Comparative Advantage from Developed to Developing Countries: A Historical Perspective (1962-84)

Time series analysis to decompose sources of changing comparative advantage (demand, factor costs, technological change).

2A. Growth in World Footwear Trade by Major Footwear Categories

- Leather and plastic
- Rubber
- other

2B. Export Share Analysis

Constant Market Share (CMS) Analysis to decompose sources of shifts in Comparative Advantage

Appendix: An analytic justification to justify CMS analysis to show the necessary conditions that must be fulfilled to interpret competitiveness and other effects attributed by CMS analysis.

Part 2

3. The Economics of VERS

3A. The Non-Equivalences of Price and Quantity Constraints

- Taxonomy of expected distribution of quota rents under alternative market structures
- The impact of VERs on market structure

3B. Preferred export quota allocation systems for exporting countries

- Comparision of single and two-tier quota allocation systems (efficiency and foreign exchange implications)
- Transferable versus non-transferable licenses: implication for quality composition mix and foreign exchange earnings.
- Internal Administration of export quota allocations: Lessons from the experience of ASEAN countries.

3C. The Analytics of Import quota permit auctions under Alternative Market Structures.

- Evaluation of various import quota allocation mechanisms under Alternative Market Structures.

Appendix: Auction quotas in Australia and New Zealand.

4. The Rise and Fall of Footwear Protectionism

- International footwear protectionism 1970-85
- US protectionism 1977-81 and the domino effect
- The political economy of protectionism in the EEC
- Why protectionism ended
- An evaluation

Part 3

5. The OMA: Implications for exporter and importer behavior

- Shifts in the direction of trade among
  - Restricted supplier
  - Unrestricted supplier
  - Demand
- Econometric detection of nonprice rationing vs. market clearing
- Shifts in quality: Comparisons between restricted and unrestricted suppliers

6. Producer Responses to Trade Policy Shocks

- Estimation of a supply model of footwear producers to relate changes in trade policy to factor demands and adjustment costs
- Application to Korea, UK, US, Japan (?), Brazil (?). Each country study to be undertaken by a different author who will rely on published data to prepare his background paper. (Chapter will only summarize results.)

7. The Welfare Costs of Footwear Protectionism

- Global estimation of the costs of protectionism using simulation analysis on parameters derived from previous chapters
- Separate quantification of the effects of the US OMA during 1977-81 and of European protection
- Estimation of rents transferred from importing to exporting countries.

OFFICE MEMORANDUM

DATE October 2, 1986

TO Mr. Johannes F. Linn, Senior Economist, AEADR

FROM Khalid Ikram, Chief, AEAKO

EXTENSION 74045

SUBJECT **Research on Footwear Industry**

1. As per your request of September 30, we have reviewed the research proposal submitted to REPAC from the country perspective. You correctly note that we were not appraised of this proposal in advance.

2. The only area of potential concern is the chapter dealing with Korea's response to footwear Orderly Marketing Arrangements (OMAs) and the extent to which its strategy should be (a) exposed and (b) used as a potential guide for other producers. The source for this information is to be interviews in Seoul with industry and trade association officials. I would hope that any Bank researcher in Korea would make it clear in his interviews/discussions that this is a research effort which will lead to a published product. Matters of trade diplomacy are extremely sensitive in Korea, and the Bank should not be seen as either an investigatory body or a disseminator of confidential industrial information. Second, I would hope that any judgments on the Korean policy response to OMAs would be made in the context of the distortions which OMAs impose and the practical conduct of bilateral trade relations. With these caveats, I see no objections to the study from a country perspective.

cc: Messrs. Kaji, Yenal, Linn, Key

DMLeipziger:jt
AEAKO:10186-3

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: October 6, 1986

TO: Mr. Deepak Lal, Research Administrator, VPERS

FROM: Oktay Yenal, Chief Economist, AENVP

EXTENSION: 69006

SUBJECT: Research Project on Footwear Industry

Please bring the attached memorandum from Mr. Ikram to the attention of the researchers planning to undertake a study of non-tariff barriers in Korea and Brazil. Provided Mr. Ikram's caveats are accepted by the researchers, we have no objection to this project going ahead.

Attachment

cc (w/o attachment): Messrs. Kaji, Ikram, Key, Leipziger

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE October 8, 1986

TO Mr. Gregory K. Ingram, Director, DRD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "The Footwear Industry in Developing Countries and How It Adjusted To Non-Tariff Barriers to International Trade"

1. The above proposal had been reviewed by four referees and subsequently evaluated by a REPAC subcommittee (their reports are attached). REPAC considered it at two successive meetings on September 4 and September 30. Between the two meetings, the subcommittee at the request of REPAC met with the sponsor, Mr. J. de Melo, to discuss the several issues raised by REPAC at the first meeting.

2. These issues were:

i) Choice of the footwear industry as a prototype case study for research on NTBs: Members felt, and some strongly, that the choice was not an appropriate one. The case was too narrow and atypical and did not appear to be central to the debate on NTBs.

ii) The external impact of the research: Like with the earlier proposal, members were deeply worried about the potentially harmful effects of the research findings (e.g. their misuse by protectionists in trying to close "loopholes") and about the nature of advice that can be given to governments and exporters on how to avoid NTBs, etc. There were concerns that the regional economists (in particular for Brazil and Korea), although they had probably been consulted on the proposal, had not been fully aware of the external implications of this research.

iii) Methodology: As noted by the reviewers, the proposed methodologies raised some questions. It was particularly not clear how the issues of trade diversions and product quality changes are to be treated both in the demand and supply models. Transportation and marketing costs seemed to be neglected. There were doubts that the demand side could be modeled satisfactorily without the use of household expenditure data. As for supply side modeling, it was feared that the use of interview methods will not be convincing because of the risks of selectivity bias.

iv) Cost: The budget was deemed excessive. It was also noted that it contained exorbitant fees to be paid to one of the

external consultants.

3. Following the subcommittee's meeting with Mr. de Melo, issue i) has become less of a concern for REPAC. However all members remained seriously worried about the other issues, in particular about the study's external impact and its excessive cost. They also thought that some of the econometric work was not necessary. But arguments were also made that, as some reviewers had noted, the topic was important and deserved some support. After a difficult debate, members have come to agree to recommend their support for a research project in the proposed area provided its cost to REPAC do not exceed $100,000. They believed this amount is sufficient to allow the researchers to do most of the innovative work in the study (that is with less emphasis on the econometric estimates of "rationing"). They would ask the sponsor to redesign the research and to suggest an outline of the proposed book based on this reduced budget. Given the sensitive nature of the research, they would also require that in these special circumstances the sponsors obtain written support from the Chief Economists of the Regions on the choice of countries to be studied (Brazil and Korea).

4. In summary, REPAC has made the following recommendations to the Vice President, ERS, regarding this proposal:

i) to authorize $100,000 from RSB for the project

ii) to attach the following conditions to the release of the funds:

a. the sponsors redesign the research and suggest an outline of the book based on this reduced budget. The outline should be cleared by the REPAC subcommittee (Messrs. K. Dervis and I. J. Singh).
b. the sponsors provide REPAC with a clear written statement from the Chief Economists for LAC and AFA that they do not object to the choice of Brazil and Korea as the countries of study.
c. Professor Carl Hamilton be involved in this research.

5. Mrs. A. O. Krueger has approved all the above recommendations.

PAP/ea

cc and cleared with: Mr. D. Lal

cc: Messrs. J. de Melo, M. Finger, V. Corbo, DRD
REPAC Members

OFFICE MEMORANDUM

DATE: February 17, 1987

TO: Mr. Deepak Lal, Research Administrator, EDS

FROM: Roberto Gonzalez Cofino, Chief, Brazil Division, LC2

EXTENSION: 72031

SUBJECT: BRAZIL - Proposed Footwear Industry Study

In view of a) the revised proposed outline and contents of the above study, and b) Mr. de Melo's assurance that the political sensitivities inherent in this type of study will be carefully taken into account, I have no objections now to the inclusion of Brazil in the study. I would appreciate being kept informed of progress in its preparation, including arrangements being considered for field work in Brazil.

cc: Messrs. G. Pfeffermann, LCNVP
J. de Melo, DRDIE

GThompson/cg-p

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

FEB 18 1987

DATE February 13, 1987

TO Mr. Jacques van der Gaag, DRDLS

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT RPO 673-38: Health Care Demand and Resource Mobilization: The Case of Peru

Given the exceptional circumstances which have caused delay in the completion of your research project, RPO 673-38, your request for a nine-month extension of that project has been granted by the Chairman of REPAC. The closing date of RPO 673-38 is now set at December 31, 1987.

PAP/ea

cc: Messrs. G. Ingram, D. de Tray, J. Lowther, DRDDR
Ms. V. Mataac, VPERS

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

FEB 18 1987

DATE February 13, 1987

TO Mr. Gregory K. Ingram, Director, DRD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "Capital Flight from Latin America"

1. The above proposal had been reviewed by six referees (three internal and three external) and subsequently evaluated by a REPAC subcommittee. Their reports are attached. REPAC considered the proposal at its meeting on February 5. REPAC noted and shared the views and concerns of the referees as summarized in the attached subcommittee report. While the topic was deemed important and relevant, concerns about the various technical aspects of the proposed approach have led REPAC to question the usefulness of the project. There were doubts that the proposal, as it stands, would add much to current knowledge. And given the unsatisfactory treatment of the policy relevant questions in the proposal, REPAC was most seriously concerned that the study would not allow any meaningful policy conclusions and recommendations to be made regarding capital flight.

2. In light of these doubts and concerns, REPAC has decided not to approve the proposal as it stands. The Acting Vice President, ERS, has been informed of this decision.

PAP/ea

cc and cleared with: Mr. Deepak Lal

cc: Messrs. M. Khan (IMF), N. Ul-Haque, V. Corbo (DRD)
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

FEB 18 1987

DATE February 13, 1987

TO Mr. Gregory K. Ingram, Director, DRD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "Changes in Employment and Real Wages during Recession and Adjustment: The Republic of Côte d'Ivoire, 1979-1984"

1. This proposal is a revised version of an earlier one that had been turned down last year by REPAC with an invitation to submit a new proposal that would take into account the criticisms of the referees and of the REPAC subcommittee.

2. The current proposal has been reviewed by the same four referees consulted earlier and again evaluated by a REPAC subcommittee. Their reports are attached. The whole REPAC considered the proposal at its meeting on February 5.

3. It was the general opinion of the reviewers, the subcommittee and REPAC members that the sponsors had been responsive to the criticisms expressed on the earlier version and had made a serious effort to improve the proposal. Despite some reservations expressed by the subcommittee based on the current referees' reports, REPAC felt that it could accept the proposal as it stands, in terms of substance and intention. But it shared the subcommittee's concerns about the quality of the data to be used which remains to be ascertained, as well as the proposal's budget which it found somewhat on the high side. In light of this, REPAC has decided to recommend approval of the proposal subject to two conditions:

i) its total cost be reduced to $85,000. REPAC has arrived at this amount by making downside adjustments to various items deemed as either inflated or unnecessary; and

ii) the project and its funding be tranched into two phases: In Phase I, the researchers would be asked to undertake a pilot run of the existing data in Côte d'Ivoire and to report back to REPAC on its results. The results should permit a judgment to be made on the quality of the data and of the model to be used for the whole project. Based on this judgment, REPAC will decide whether to approve and fund Phase II. The sponsor will therefore be asked to estimate the costs of the two Phases within the total authorization limit of $85,000 set by REPAC.

4. The above recommendations have been endorsed by the Acting Vice President, ERS.

5. Upon acceptance by you and the sponsors of the conditions attached to REPAC's approval of the proposal, and upon submission of the budget for Phase I, the project's identification code and financial authorization for Phase I will be issued.

PAP/ea

cc and cleared with: Mr. Deepak Lal

cc: Messrs. J. van der Gaag, J. Newman, V. Corbo, DRD
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

FEB 17 1987

DATE February 13, 1987

TO Mr. K. Pranich, Acting Director, EMP

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Preparation Proposal: "Factors Conducive to the Creation of Female Employment in EMENA Region Countries"

Mr. Wheeler from your department has submitted to REPAC a request for funds to finance the preparation of a research proposal on the above topic. I regret to inform you that in the light of the numerous concerns expressed by a referee consulted on the research preparation proposal (see attached report), REPAC has decided not to grant the request.

PAP/ea

cc and cleared with: Mr. Deepak Lal

cc: Messrs. A. Wheeler, M. Bossiere, A. Al-Khafaji, EMPTA
REPAC Members

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE February 10, 1987

TO Mrs. Phi Anh Plesch (VPERS)

FROM

EXTENSION

SUBJECT Request for research proposal preparation funds to study "Factors conducive to the creation of female employment in EMENA countries"

1. I have read the EMENA region's revised application for research preparation funds and compared it to the previous request. By way of background you will recall that the previous version of this proposal was rejected on grounds that it did not contain even the most rudimentary sense of what was to be studied, how it was to be studied, and who was to do the work. Reviewers of the previous version recognized that even as a request for proposal preparation funds it needed a little more sense of direction.

2. Although there is some attempt to meet previous concerns this version still falls short of giving the reader a reasonable sense of what will be done. Such statements as there are cover a very wide territory; there is no indication (beyond "literature review", and "intercountry comparisons") of what methods might be used to test alternative hypotheses, or of the likelihood that the countries chosen will exhibit variations in policies, and economic and social conditions that will allow one to arrive at policy recommendations. In fact, it is quite evident from the proposal that virtually the entire project remains to be thought out, including, so far as I can tell, the choice of collaborators, countries, and specific issues.

3. Commenting on a request for proposal preparation funds is always difficult because one must necessarily guess at whether or not the final product will be a possible proposal. In this case the job is particularly difficult because we are kept in the dark even about the players. No details are given on the "consultant labor economist with Middle East experience" and thus we cannot tell whether this will be someone of experience and repute who can carry off this very challenging endeavor. If there is someone in mind I suggest that you ask to see a curriculum vitae; if not, you should probably insist that the primary consultant be identified and approved before release of funds.

4. **That** this is a potentially worthwhile undertaking is beyond question. **However**, the importance of the issue alone is not sufficient justification for funding. Even its proponents admit that much of the existing work on women and development is methodologically weak. What we need is some assurance that this study will produce something convincing to skeptics as well as to the already converted.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

FEB 12 1987

February 11, 1987

Mr. Gerardo Sicat, Chief, DRDPE

Phi Anh Plesch, Secretary, REPAC PAP

33484

Pre-Proposal Brief: "A Comparative Study of Tax Reform in Developing Countries"

Your pre-proposal brief on the above subject was considered by REPAC at its meeting of February 5, 1987. REPAC endorsed the recommendations of the Review Board regarding the direction that the proposed comparative study should take. It agreed in particular that the study should be focussed primarily on the political economy of tax reform. But given this focus and the repeated insistence of the Review Board on the importance of this component, REPAC did not think that this had been properly reflected in the brief. It found that the section on the political economy of tax reform (section II of the brief) was poorly and insufficiently elaborated and as such could not be accepted. It would recommend that this section be significantly expanded to provide a more solid basis on which members could confidently form their judgment. It also would require that you submit a budget that itemizes in detail the resources needed to prepare the full proposal, along with a statement on who would be responsible for the preparation work.

PAP/ea

cc: Messrs. G. Ingram, V. Corbo, W. Thirsk, DRD
Review Board Members
REPAC Members

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE February 10, 1987

TO See Distribution

FROM Benjamin King, Acting Vice President, ERS

EXTENSION 33774

CONFIDENTIAL

SUBJECT Evaluation of RPOs 671-27 and 672-25A (Graham Pyatt)

At its meeting on February 6 the Research Policy Council had a detailed discussion of the above matter. It decided:

(1) to accept (with one member dissenting) Professor Srinivasan's report with its two conclusions:

> "(a) I have no hesitation in saying that the evaluations were professionally sound. This does not mean that a different set of evaluators could have come to a different professional judgment. And professional judgments can, and often do, differ.
>
> (b) There were a number of avoidable lapses, misunderstandings and inefficiencies in the way the procedures and processes of evaluation were implemented in this case. Yet, on balance, these lapses, while regrettable, did not compromise the integrity of the process to any extent. In particular, even if a face-to-face discussion between Professor Pyatt and the panel had taken place, it probably would have altered the style and tone of the report but not its substance. The differences in professional judgments may have somewhat narrowed or clarified but not eliminated altogether."

(2) to approve the strengthening of the evaluation procedures as recommended by REPAC at its meetings of September 4, 1986 and February 5, 1987. These concern the institution of a formal appeals procedure and the collective clearance of referees by REPAC.

(3) not to ask OED to examine the evaluation procedures either in this specific case or generically.

cc: RPC Members, REPAC Members, Mr. Chopra, OED, Mr. Riley, OMB
cc. for information: Mr. Pyatt, Warwick, Mr. G. Ingram, DRD
Mrs. A.O. Krueger, Duke,
Professor T.N. Srinivasan, Yale

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

JAN 1 8 1987

DATE January 15, 1987

TO Mr. G. Edward Schuh, Director, AGR

FROM Phi Anh Plesch, Secretary, REPAC

EXTENSION 33484

SUBJECT Research Proposal: "Book on Economics of Rural Organization in Developing Countries"

1. Thank you for submitting the above proposal to REPAC. Like the referee (whose report is attached), REPAC thinks that the project merits support but feels that the value and contribution of the proposed book could only be important if it is a newly written monograph incorporating all previous and ongoing research in a comprehensive and coherent way. Therefore REPAC would be willing to fund the project only on the condition that the book take such a form, i.e. a newly written monograph, instead of being a collection of essays and articles, most of which REPAC notes, are already published in some form.

2. Subject to your acceptance of that condition, REPAC will release the funds in the amount requested.

Attachment

cc and cleared with: Mr. D. Lal

cc: Messrs. A. Braverman, T. Bertrand, AGR
REPAC Members

OFFICE MEMORANDUM

DATE January 12, 1987

TO Ms. P. A. Plesch, VPERS

FROM

EXTENSION

SUBJECT Comments on "Economics of Rural Organization in Developing Countries", by Avishay Braverman and Joseph Stiglitz

1. World Bank research is sometimes criticized for producing "intermediate products" rather than finished and "polished" research. It is, therefore, well worth supporting a project that tries to put together, in a coherent way, important and innovative research that has been published in scattered form or in research memos. When two researchers of the caliber of Braverman and Stiglitz want to do just that, there is a good reason to support the project. The topic they deal with is obviously very important and their line of research very promising.

2. However, it is important to ask the researchers to make a comprehensive book, rather than just putting together scattered articles. The book should not be a collection of essays, but a newly written text that can be an important monograph in this important field.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE February 9, 1987

TO Mr. Dale Weigel, Deputy Director, CDD

FROM Phi Anh Plesch, Secretary, REPAC

EXTENSION 33484

SUBJECT Research Proposal: "Privatization. An Option for Development"

1. Thank you for submitting the above proposal to REPAC. It has been reviewed by two referees whose reports are attached (according to REPAC's rules they must remain anonymous). In light of these reports, REPAC is pleased to approve the proposal but it would like the referees' comments to be taken into account in the further design and conduct of the research. REPAC also would expect an article for one of the Bank's journals, the World Bank Economic Review or the World Bank Research Observer, as an output of the project.

2. The project's identification code and financial authorization are issued as follows:

i)	Identification Code	674-18
ii)	FY87 Authorization	$8,000
iii)	FY88 Authorization	$40,000
iv)	Total Authorization	$48,000

Please use the identification code in all financial documents and other correspondence related to the project, including letters of appointment to consultants.

3. Since the project is scheduled for completion on July 1, 1988, according to REPAC's rules, it will be closed on December 30, 1988. A completion report must be filed with the Research Administrator's office on or before the project's closing date.

cc and cleared with: D. Lal
cc: Messrs./Mmes.: R. Richardson, M. Hartigan, CDD
S. Panickaveetil, M. Tonson, PBD
K. Hannemann, M. Herndon, ACT
R. Pearson, SVPM1
B. Ross-Larson, CON
S. Aiyar, H. Cortes, V. Mataac, R. Snape, VPERS
A. McAlister, BRDC
REPAC Members

January 22nd, 1987

Ms. Phi Anh Plesch,
Secretary to the RPAC,
Office of Economics and Research,
The World Bank, Room S-9135,
Washington DC 20433.

Dear Ms. Plesch,

"**Privatization. An option for Development.**"

Thank you for your letter of January 20th and for sending me the above proposal for review. My comments are as follows:

General.

The subject is one that merits urgent attention and Dr. Leeds seems to be well qualified to investigate it. However, the ground to be covered is so wide, and the methodology proposed so expensive, that I doubt whether the funds requested would suffice for the number of cases required by the objectives. There may be a case for abandoning the idea of obtaining the results by field interviews, and using less costly methods.

So many important details are missing, that acceptance of the proposal as it stands would be like giving the IFC a blank cheque to implement the study. This may not be a bad idea, so long as it is made clear where the responsibilities lie. Alternatively, the proposal might be accepted in principle, and the sponsors asked for more information.

Staffing

Dr. Leeds seems to be well-qualified to lead the proposed research, but more information may be desirable about the people at the Center for Business and Government who are to be associated with the work (p.12) and the consultants who are to be contracted to assist him (p.3).

Objectives of the Project.

The objectives listed (p.6) appear to be appropriate.

"Project Design and Research Tasks".

The emphasis on "applied research that is likely to reap practical benefits" (p.7) is commendable, as is the focus on a limited number of specific cases. I would have preferred to see a definite work program - at least for a couple of cases - at this stage, and would certainly have expected the "criteria for selection" to be spelt out in the proposal.

I have doubts about the desirability of obtaining the bulk of the information from "field trips to the countries being studied", as field trips can be enormously expensive in both time and money. Interviews with "individuals who actually participated in the particular event being studied" could be of enormous interest, but might reduce by a factor of ten the number of cases that could be studied. I suspect that much relevant information could be obtained in the US - from IFC and other World Bank staff for example - or from informed observers already in the countries concerned (e.g. the Private Sector Promotion Unit in the Ministry of National Planning, Somalia). If it is decided to accept the field trip approach it is <u>essential</u> to obtain a specific work program (as mentioned on p.13 of the proposal) before committing the bulk of the funds.

Issues to be addressed.

The issues listed on pages 9-10 seem important and appropriate, especially Nos. (2) and (6). However, in order to establish "a methodology" and "criteria" it would be necessary to obtain a significant number of results (say 10-20). I do not see how sufficient cases could be obtained without either substantially increasing the funding or abandoning the idea of basing the research on interviews in the field with the primary participants.

"Final Products" (pp. 10-11)

The stress on information dissemination is praiseworthy. I hope that the World Bank will make its publication and distribution facilities available for this task. The EDI should be in a strong position to organize the proposed workshops and seminars. If the proposed research is to go forward, it may not be too early to seek funding for disseminating the results.

Yours sincerely,

February 4, 1987

SUBJECT: Research Proposal on "Privatization--An Option for Development"

The principal objective of the proposed research--to identify the factors that lead to success or failure of privatization in developing countries through a series of case studies--is certainly worthwhile. Moreover, Dr. Leeds is evidently well qualified to undertake such research. The proposal describes clearly and concisely the nature of the problems being considered, the way in which the research will be undertaken, and the importance from a policy standpoint of establishing conclusions in this area. However, as it currently stands, the proposal under consideration has a few significant shortcomings and omissions.

At the very beginning of the proposal, it is noted that inefficient state enterprises are a burden on the budget, a drain on scarce resources, and impede growth and development. Under such circumstances, I would have expected that an assessment of the extent to which privatization has proved effective or ineffective in addressing these problems would be a central theme of the research. Yet when describing the methodological framework for the research and the key issues to be addressed (pp. 9-10), there is no reference to these problems.

The proposal also notes that there appears to be a wide gulf between privatization objectives and strategies (which I take to mean actual privatization initiatives). It is suggested that the proposed research will help bridge this gap, although it is far from obvious that conclusions derived from analyses of successful and unsuccessful privatization initiatives can provide more than a small part of the explanation why in many countries ambitious privatization plans fail to get off the ground.

I think it is appropriate that the proposed research will not tackle the many analytical issues associated with privatization. However, the major results that have emerged from work in this area cannot be ignored. One of the strongest of these results is that privatization is unlikely to have a significant effect on the economy (i.e., on efficiency, the budget, the rest of the public sector, etc.), unless accompanied by measures to promote competition. It is therefore surprising that issues relating to market structure, and in particular the relative impact of privatization in competitive and monopolistic markets, is not mentioned in the proposal.

While the proposal is quite right in stating that privatization is a relatively new area of research, and many questions will arise as work progresses, I believe that the shortcomings and omissions described above relate to questions that should be addressed in the proposal. If this is done satisfactorily, then I believe the project would be worthy of financial support.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE January 22, 1987

JAN 28 1987

TO Mr. Greg Ingram, Director, DRD

FROM Deepak Lal, Chairman, REPAC

EXTENSION 33481

SUBJECT Research Proposal: "Stopping High Inflation: Four Case Studies"

Thank you for submitting the above-titled proposal to REPAC. It has been reviewed by three referees whose reports are attached. Though generally supportive of the proposal, which is accepted to be in an important area, most of the referees felt it needed some modifications in terms of the approach adopted. REPAC therefore recommends that the sponsors resubmit a revised proposal which takes account of the referees' comments, by focussing the research on particular topics and perhaps extending the country coverage.

PAP/ea

cc: Messrs. S. van Wijnbergen, P. Montiel, V. Corbo, DRD
REPAC Members

Office Memorandum

Date: December 23rd 1986

To: Phi Anh Plesch, ERSVP

From:

Ext:

Subject: Stopping High Inflation - a Research Proposal

As you requested in your memorandum of December 18th, I have reviewed the above proposal. I am afraid that I found the proposal rather sloppily prepared. You might wish to take this up with DRD. Nevertheless the topic is an interesting one and of considerable importance for the Bank's work in SALs etc. The authors are of proven capability and should do a good job in a very difficult field.

I would recommend that the grant be made. I attach an anonymous report which you may wish to send to the authors.

Notes on
"Stopping High Inflation: Four Case Studies"

1. There are some corruptions in the text of "B OBJECTIVES AND RESEARCH STRATEGY", although it is doubtful if this inhibits an assessment of the proposal. Such errors, however, suggests that the final proposal somehow escaped being reviewed by the research workers and perhaps by the front office of the director, so it may be sensible to ask them to review and correct it. An incomplete list of corrections includes:

page 4 (note that pagination does not start until page 8), the Friedman (1977) and Sargent and Wallace (1985) references do not appear in the bibliography while the Sargent and Wallace (1982) appears under Parks R (1978)

page 13. The third line seems to be an interloper, but it is not easy to discover where it came from.

page 14. Sargent and Wallace (1985) again.

page 20. The Blejer reference is garbled. I think that also the Arida (1985) reference is garbled, similarly Parks R.(1978).

2. The study of policies for dealing with high and rapidly accelerating inflation is of obvious interest. One might question however whether the chosen countries are the most interesting cases to study. As the proposal admits, the policies were introduced only some three years ago and one will not know the consequences for some time. It may be objected that it is a little premature to attempt to draw lessons from Israel, Argentina, Brazil and Bolivia. One would have thought that inflations in Indonesia, Taiwan and Chile, for example, in the 1970s, would be more interesting since the record is more or less complete. We know the consequences. This is particularly important since the authors lay great stress, rightly in my view, on 'sustainability'.

3. There is some ambivalence about the theoretical approach to be used. But that is to the good. The proposal is concerned with finding insights into the disinflationary processes and not with testing hypotheses. We do not have a tested model of the dynamics of monetary and fiscal adjustment - and one may be dubious about adopting the principles derived from their proposed theoretical developments (see 3rd full para on page 13). Nevertheless the comparative study of wage and price controls, with Bolivia as the "no" control, should be very illuminating.

4. There is little or no emphasis in the proposal about the effectiveness of exchange and wage/price controls. Especially important is the use of parallel currencies; but I presume that the proposal does not mention such matters in order to maintain brevity.

5. The proposal says very little about data. Everyone knows about the difficulty of getting suitable data for public sector financial deficits especially in countries such as Brazil and Argentina, where there are many concerns in public ownership. The IMF and the Bank's country economists have had great difficulty in settling such issues. Similarly wage data, particularly in Bolivia, are not in good shape - and large numbers of the employed population are not covered by wage data collections systems. Is the analysis of employment etc going to be constrained to the sectors for which data are available ?

6. There is no doubt about the proposal being highly relevant to the work of the Bank - particularly in developing its SALs.

TO: January 6, 1986

FROM:

SUBJECT: Review of "Stopping High Inflation: Four Case Studies"

I am sorry for the delay in sending you my comments; I certainly hope that they can still be of use to you. I have now read the proposal, and although I am aware that the topic is important and warrants serious consideration, I have some doubts and concerns about the approach taken in this project.

Although, as I have mentioned, the topic is of great current interest and is an important one, there is a large number of studies already being carried out on this subject. (In this context, I would like to mention that I do not think the proposal documents in a satisfactory manner the existing literature. Attributions are not really clear, and there are many omissions.) Because of the proliferation of similar studies, the question is not whether one more is necessary; it is, rather, what is the new contribution of this proposal in the margin. It is in this sense that I find the proposal neither well-defined nor appropriately focused.

There is by now ample documentation regarding the description of the design of the programs, and there are many enumerations and comparisons of the concrete steps taken. It is therefore clear that this cannot be the main contribution of this project. I am aware that this is not the intention here, but there are in this proposal a few pages of descriptions that I find plagued by sweeping statements which are either wrong or imprecise, or both.

At the more analytical level, the dichotomy presented regarding the different approaches to explaining hyperinflation and stabilization policies, namely, the so-called balance of payments view vs. the fiscal view, is, in my view, redundant and confusing. The authors actually recognize that these two views are not mutually exclusive, but they fail to define them in a way that actually makes them mutually differentiated. I personally think that this is a too artificial distinction which adds very little to the understanding of the underlying inflationary pressures and the consequent optimal strategy for stabilization.

The specific questions raised by the proposal and how the authors plan to answer them are not well-focused and are quite confusing. The empirical implementation which is mentioned as the central contribution of this project (bottom of page 3) is not spelled out, and one wonders what exactly will be tested

empirically. Moreover, no mention is made of what type of data will be used, what frequency, which period, etc.

I also have a serious problem with the fact that some of the basic questions which arise from the four cases to be analyzed are basically disregarded. For example, the need for, the effects and consistency of, and the role played by incomes policies do not seem to be of much concern to the authors. The whole concept of inertial inflation, which, rightly or wrongly, has been the focus of the design of the programs, is hardly mentioned at all. On the other hand, the authors seem to concentrate on some issues which, in their view, have been often neglected but which, in fact, have been largely studied in many other inflationary contexts. A clear example of this is the issue of the impact of inflation on real government revenue (bottom of page 14).

In view of the above, my recommendation cannot be positive. My suggestion, however, is that a much smaller-scale project based on a reduced budget could be useful if it concentrates on a specific topic which may arise from the comparison of these experiences. Such topic could include the role of exchange rate policies in hyper-stabilization, the overall real cost of shock programs, the sustainability of shock programs in the absence of price controls, and some other similar issues.

Phi Anh Plesch
Economics and Research
THE WORLD BANK
1818 H. Street, N.W.
Washington, D.C. 20433

Dear Phi Anh Plesch:

I enclose my report on the study proposal "Stopping High Inflations: Four Case Studies". I have found it difficult to review this proposal because I believe that it is very important but also deficient. I have spent far more time on the enclosed report than the fee deserves, but I have done so hoping to improve the study. Please forgive me for being so late in returning it to you.

Sincerely,

Encl.

Report on Research Proposal

"Stopping High Inflations: Four Case Studies"

RECOMMENDATION: As will be become apparent in the comments that follow, I believe that this study is an important one and that it should be approved, with modifications. I think that it needs to be grounded in the broader set of stabilization experiences rather than just the four countries whose stabilization programs are yet in progress. I also feel that the authors have accepted as points of departure a number of assertions of fact that are mere hypotheses. In addition, I think that the authors of the proposal (hereafter referred to as "authors") have neglected some "basics" that are important to the study (more on this in paragraph 8). My principal suggestion is that certain propositions that appear to have been accepted by the authors be put to broad empirical tests prior to *beginning* the case-study approach. Given the overall design of the study, there can be no difficulty in making this modification.

To it's credit, it should be mentioned that this study proposal makes no mention of "real exchange rate policy".

COMMENTS:

1. The topic of this study is interesting in and of itself; it is surprising that the investigators feel that it is necessary to develop its "Relevance for the Bank" (see section 5 of the study proposal) and to justify an intrusion onto the IMF "turf". If this study can produce even modest insights concerning the stabilization process that are useful in reducing the social costs of that process, it will certainly be one of the best investments ever financed by the World Bank. It is the opinion of this referee that very few research projects that might be undertaken by the World Bank staff are likely to be directed at a problem as important as that of reducing the costs of stopping inflation.

Continuing in the same vein, it seems quite unnecessary to consider the issue of whether stabilization is a pre-requisite for a successful "structural adjustment" program. There is a rather broad consensus that (chronic) inflation has, among other negative consequences, highly detrimental effects on the development of national capital markets. Given that the ability of the World Bank to substantially accelerate the development process would be greatly enhanced if those countries had more highly developed domestic capital markets, efforts by the Bank to assist those countries in reducing inflation hardly requires further justification. In the opinion of this referee, it would be a mistake to divert any resources available to this study to the question of the relation between price stabilization and structural adjustment.

2. The case study approach seems quite appropriate for examination of the "new" stabilization strategies; I would register the

reservation, however, that the case studies may be premature as the available evidence on those episodes is simply not sufficient to permit a final evaluation. In view of that, this referee feels that it is of paramount importance to test the validity of the some of the basic hypotheses (more correctly, perceptions) on a broader set of stabilization experiences. Specific suggestions will be offered below.

3. While the proposal is directed to an in-depth analysis of four recent stabilization programs (Argentina, Bolivia, Brazil and Israel), the document frequently harks back to the earlier, exchange-rate based stabilization experiences of the Southern Cone countries (Argentina, Chile and Uruguay) during the late 1970s and early 1980s (the "Latin" herring?). The reasons for this evident comparison are not made clear in the study proposal. The earlier programs, "gradualist" in nature, were quite different from the more recent "shock" treatments; moreover, only one of the Southern Cone countries is included in the current study. One important common element linking the two sets of experiences is the fact that both began in the context of a rapid real depreciation of the U.S. dollar vis à vis other major currencies. To the extent that there are similarities in exchange rate policies across the two sets of experiences, the comparison may be quite relevant; nevertheless, the study proposal makes only passing reference to the behavior of the dollar.

4. This referee feels that the authors pay too little attention to the external context in which the stabilization programs are attempted. The rapid and real depreciation of the dollar during the earlier exchange-rate based stabilization efforts prevented the exchange rate rules (e.g., the "tablita" in the case of Argentina) defined on the U.S. dollar from reducing the rate of inflation as rapidly as was expected which, in turn, undermined those programs by creating a loss of confidence in their effectiveness. One wonders if the same effect may (has?) come to bear on the current stabilization programs, in view of the recent real depreciation of the dollar (that has, by chance, also coincided with these efforts) and the less than complete success of the Argentine and Brazilian programs.

5. The study proposal places much of emphasis on the role of indexation in the inflation process, an emphasis that this referee feels is excessive. This brings to mind the 1983-84 Brazilian controversy concerning "inertial" inflation. Despite efforts by Mario Simonsen and officials of the then-Government of Brazil to identify indexation as the cause of inflation (and the obstacle to reducing it), the authors of the Plan Cruzado have quite convincingly demonstrated that this "obstacle" was but a fig leaf for that Government's well established use of the Banco do Brazil as a source of massive amounts of off-budget funds to finance political subsidies. The issue of "inertial" inflation disappeared along with the old government. (Economists often make light of politician's

mis-understanding of economics; one often must wonder how opportunistic politicians view the political naïveté of economists. The danger arises when moderately-endowed economists pretend to incorporate an understanding of political issues into their economic models. Prebisch artfully fused loose economics with sophisticated politics; we are now seeing crude attemps to fuse loose politics with relatively sophisticated economics. While neither activity lends particular grace to it's author, Prebisch--to his considerable credit--exhibited not only rare flair but also great style while so engaged. Rather like John Maynard Keynes.)

The indexation issue comes up very clearly in the authors' presentation of the "balance of payments" view of inflation (see page 5, first complete paragraph). They argue that wage indexation "transforms the price level shift into a sustained increase in the rate of inflation", and that reducing the rate of inflation will at least temporarily increase real wages. There are at least two difficulties with this argument: (i) it seems to treat the real wage as an arbitrarily-determined variable (or, at best, one subject to a strong hysteresis effect); and (ii) if wage indexation increases real wages when inflation declines, then it should reduce real wages when inflation increases; that is, indexation should be neutral over the inflation cycle in that the decline in the inflation rate will just return the real wage to the level prevailing prior to the "price level shift". One can readily agree with the authors that "the balance of payments view...lacks a fully articulated theoretical framework" (page 5). Indeed, one doubts that a "fully articulated theoretical framework" can be formulated to underpin what appears to be a purely ad hoc, descriptive approach. Hopefully, the authors will not devote significant resources in a futile effort to provide that theoretical framework. (For an alternative analysis, see paragraph 8).

If the authors are serious about doing anything with respect the effects of indexation, then it is most strongly recommended that they seek out the advice of a competent labor economist. Real wages are not likely to be long influenced by simple indexation. Moreover, determination of the real wage is certainly less arbitrary than is the process described in this research proposal.

6. The authors' preoccupation with real interest and real exchange rates appears repeatedly in the proposal; on page 12, for example, they ask "why is it that bringing inflation down always leads to a period of high real interest rates and, often, an appreciation of the real exchange rate?" (emphasis added). Is this statement true? Perhaps this is classic case of a non-phenomenon in search of a theory. This referee doubts very much that a systematic investigation of stabilization programs implemented throughout the world since 1950 would provide significant support for what has become one of the most prominent "stylized non-facts" about stabilization. What is true is that there were a few cases in the late 1970s and early 1980s in which stabilization programs in the Southern Cone were accompanied by apparent appreciations of the real exchange rate (against the dollar, but much less so--or even

depreciation--against other major currencies) and, paradoxically, high real interest rates. But what is also true is that there were numerous experiences in which high real interest rates were accompanied by accelerating inflation (e.g., Brazil and Peru after 1980, Mexico after 1982). Moreover, careful examination of the stabilization cases reveals that the high real interest rates tended to coincide with the real appreciation of the dollar, an event which began in mid-1980--long after the Southern Cone stabilization programs were initiated. There is no paradox in that; a real appreciation of the dollar also means real appreciation of currencies linked to it, and high real interest rates are associated with real appreciations--whether inflation is declining or accelerating. Indeed, there can be no doubt that real interest rates were unusually low during the initial stages of those stabilization programs (e.g., Chile during 1978 and 1979, Argentina and Uruguay during 1979)--which coincided with the rapid real depreciation of the dollar vis à vis other major currencies. The authors could perform a very useful service by developing the evidence rather than relying on "stylized facts": that is, systematically examination of the relationship between real interest rates and the rate of acceleration (or deceleration) of inflation for a number of countries since 1950. In the opinion of this referee, this activity would be rather more productive than searching for a theory to explain a phenomenon which apparently occurs without regularity.

7. Returning to the issue of the real exchange rate, once again the authors could perform a useful service by developing an empirical measure of the multi-lateral real exchange rate, one that is free of the "noise" introduced by the large fluctuations of the real exchange rate between the dollar and other major currencies. Once again it would be appropriate to determine if, in fact, appreciation of the multi-lateral real exchange rate has been systematically associated with decelerating inflation during the post-1950 experience of a large number of countries. This referee would be quite surprised if such evidence can be found.

8. The alleged real exchange rate phenomenon is closely related to the real wage rate issue and indexation. The real exchange rate is, after all, roughly the inverse of the real wage (in the traded goods sector). Appreciation of the real exchange rate obviously implies a rise in that real wage and hence if indexation leads to an increase in the real wage when inflation is declining, it must lead to a real appreciation. The indexation issue, then, and the real exchange rate issue might be merely opposite sides of the same coin. Moreover, to the extent that capital markets are integrated, real exchange rate appeciations have direct implications for the behavior of the real interest rate. The implications are obvious.

Again, it is a question of the actual versus the stylized facts. Is there any hard evidence that stabilization has systematically led to increases in the real wage and the real rate of interst (owing to indexation)? The simple fact that only a small

part of the labor force in the typical developing country is employed under an indexed wage contract causes one to suspect, even under the most naïve assumptions concerning the real wage determination, that this effect must be small, quantitatively. Nonetheless, the proposal reads as if 100 per cent of the labor force were subject to indexation. (Much, for example, has been made by V. Corbo and others of the indexation effect on real wages in Chile during 1981. Nonetheless, less than 20 per cent of the Chilean labor force had it's wages increased during that year owing to the indexation clause (the increase being 10 per cent). On the other hand, for reasons that remain obscure, the government sector was given a 25 per cent wage increase in 1981--precisely at the time that the inflation was turning into deflation! Which adjustment was the more important?).

The authors must take cognizance of the inter-relationships between the variables that they seem to view as quasi-independent. This should be the main task of the proposed analytical study. At the very least, it is essential that they disentangle--and attempt to integrate--their own conception of the real interest rate/real exchange rate/real wage issue. As the proposal now stands, their "eclectic" approach admits at least five or six numeraires. This cannot be serious economics.

9. None of the above suggestions requires development of new theoretical approaches; rather, what is needed is merely systematic application of known relationships with an eye to empirical application. If the study were, as a consequence, to be conceived more broadly--with less concentration on the uniqueness of the four cases--but drawing more upon existing theory and placing a greater emphasis on the international environment--this referee feels that it's success in increasing our understanding of the nature of both the process of inflation and stabilization may be enhanced.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE January 14, 1987

TO Distribution

FROM Deepak Lal, Research Administrator, VPERS

EXTENSION 33481

SUBJECT Recent Changes in REPAC's Funding Policies

At the December 16 meeting of the Research Coordination Committee, it was agreed that for the information of staff at large the following note be sent to you outlining: (i) REPAC's new policy decisions regarding the funding of conferences and research preparation requests; (ii) the new procedures for regional consultation prior to the submission of research proposals; and (iii) the guidelines issued by the ITF Department for the purchase of personal computing equipment for RSB-funded research projects.

Conferences

While requests for funding conferences will be considered on their merits, the principle of cost-sharing will be applied by which REPAC will fund the research component of such conferences only (e.g. fees for authors of commissioned papers). The understanding will be that the conference costs will be borne by the sponsoring department(s). Exceptions to the cost-sharing rule will continue to be made for those conferences which are part of the research design, execution and monitoring of very large research projects such as the comparative studies.

Research Preparation

Noting that research producing departments in ERS, OPS and EIS have built-in research capacities to undertake preparation of research proposals, REPAC has adopted a more restrictive policy in dealing with research preparation funding requests from these departments: (i) REPAC will fund only the consultancy fees included in the requests; (ii) a ceiling of $10,000 will be applied for each research preparation grant; and (iii) the condition attached to the grant would be that the sponsoring department produce a research proposal along the lines described in the original research preparation request. If that condition is not fulfilled, the sponsoring department will be required to reimburse the funds advanced by REPAC for research preparation.

Regional departments which normally do not have built-in research capacity will continue to have unrestricted access to REPAC's research preparation funding facility.

Regional Consultation for Research Proposals

For studies involving specific countries or regions, the sponsoring department(s) should seek the comments of the appropriate Regional Offices through the Chief Economists, who should be consulted early in the research preparation process rather than towards the end. To indicate that such a consultation has taken place, the signature(s) of the relevant Chief Economist(s) will be required on Part II of Form No. 1699 which accompanies the submission of research proposals.

Purchase of Personal Computing Equipment for RSB-Funded Research Projects

Computing equipment purchased from RSB funds for RPO projects must be as a matter of policy returned to the Bank upon project completion. However requests may be made to ITF to repurchase the equipment at its depreciated value. The appropriate procedure recommended by ITF would be to include in the consulting contract a clause authorizing the purchase of computing equipment necessary for the agreed work and stipulating that at the conclusion of the project it must either be returned to the Bank or purchased for the depreciated value. Please note that for personal computing equipment, the Bank's discount period is six years.

PAP/ea

Distribution: Messrs. K. Dervis (EMNVP), P. Isenman (ESAVP),
J. Holsen (ASNVP), S. O'Brien (WANVP),
G. Pfeffermann (LCNVP), O. Yenal (AENVP),
A. Walters (OPS), G. Ingram (ERS)

cc: REPAC Members

E WORLD BANK/INTERNATIONAL FINANCE CORPORATION

FFICE MEMORANDUM

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cc: REPAC Members

cc: Division/Unit Chiefs
Messrs. Corbo, de Tray, Lowther (DRDDR)

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

JAN 16 1987

DATE January 14, 1987

TO Distribution

FROM Sappho Haralambous, VPERS

EXTENSION 33486

SUBJECT Minutes of the Meeting of the Research Coordination Committee, December 16, 1986

The meeting of the Research Coordination Committee on December 16 was attended by Messrs. J. Holsen (ASNVP), O. Yenal (AENVP), B. Tuncer (EA1DR), G. Pfeffermann (LCNVP), A. Noman (WANVP), G. Ingram (DRDDR), and A. Walters (OPS). Messrs. S. Rajapatirana (WDR) and D. Papageorgiou (CPDTA) were also present. The meeting was chaired by Mr. Lal.

Mr. Lal communicated the recent policy decisions taken by REPAC and approved by the Research Policy Council. These concerned the funding of conferences and research preparation requests.

For the funding of conferences the principle of cost sharing will be applied: REPAC will fund only the research component while the sponsoring departments should bear the costs of the conferences. The principle of cost sharing does not apply to the comparative studies.

Regarding research preparation, Mr. Lal said that some restrictions are being introduced in the funding of requests from the research producing departments of OPS, ERS and EIS. These departments have built-in research capacities which should be used for preparing research proposals. REPAC's research preparation grants will be limited to a maximum of $10,000. No such restriction will apply to the funding of research preparation requests from the regional departments, which normally do not have built-in research capacities.

There is an amended policy for the purchase of computers with research projects' funds. Upon the completion of a project, the equipment can be either returned to the Bank or purchased by the consultant at its depreciated value, the discount period being six years.

The issue of regional consultation and coordination was then discussed. It was agreed that every research proposal involving specific countries or regions should be channelled through the appropriate chief economists whose signature(s) will be required on the proposal's submission form.

Requests were made that a note be sent from the Research Administrator's Office which incorporates all the above decisions and guidelines.

Following the above discussions, a short status report was presented on each of the comparative studies.

Trade Liberalization: Mr. Papageorgiou announced that Phases I, II and III of each country study are completed as well as the first draft of the entire country manuscripts. The final versions of these manuscripts are being submitted now. The first complete draft of the synthesis will be ready in a year. Preliminary findings will be presented by the project managers at the meeting of the American Economic Association.

Agricultural Prices: The country studies are completed and will become available by the middle of 1987. The last meeting of all participants will be at the end of January 1987.

Poverty and Growth: There has been a six month delay due to difficulties in finding local collaborators. The first complete drafts of all country studies will be ready by April 1987 and the twin studies by December 1987. After that, the synthesis volume will be prepared.

Macroeconomic Policies: The project was launched in July 1986. The first meeting of all participants will be in March 1987.

Distribution: Messrs. J. Holsen, O. Yenal, B. Tuncer, G. Pfeffermann, A. Noman, G. Ingram, A. Walters, S. Rajapatirana, D. Papageorgiou, M. Schiff, A. Choksi, H. Cortes

cc: D. Lal

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

JAN 14 1987

DATE January 13, 1987

TO Mr. Jean Baneth, Director, EPD

FROM Phi Anh Plesch, Secretary, REPAC

EXTENSION 33484

SUBJECT Research Proposal: "Sovereign Borrowing, Debt and Default in the Interwar Years: Lessons for the 1980s"

1. Thank you for your January 6 memorandum indicating your acceptance of the conditions attached to REPAC's approval of the above research proposal and stated in my decision memorandum of December 17, 1986.

2. The project's identification code and financial authorization are now issued as follows:

i)	Identification Code	674-17
ii)	FY87 Authorization	$15,000
iii)	FY88 Authorization	$30,000
iv)	FY89 Authorization	$15,000
v)	Total Authorization	$60,000

Please use the identification code in all financial documents and other correspondence on the project, including letters of appointment to consultants.

3. Since the project is scheduled to be completed on December 31, 1988, according to REPAC's rules, it will be closed on June 30, 1989. A completion report must be filed with the Research Administrator's Office no later than the project's closing date.

cc and cleared with: Mr. D. Lal

cc: Messrs. J. Underwood, C. Larkum, Y. Calleja (EPD)
S. Panickaveetil, M. Tonson, PBD
K. Hannemann, M. Herndon, ACT
R. Pearson, SVPNI
B. Ross-Larson, CON
S. Aiyar, V. Mataac, F. Jessup, VPERS
A. McAlister, BRDC
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DEC 22 1986

DATE December 19, 1986

TO Mr. Stephen O'Brien, Chief Economist, WANVP

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: Afro-Asian Transfers of "Lessons from Experience" in Agricultural Policy: Framework and Case Study of Rice Research in Sri Lanka and Sierra Leone

1. The above proposal, sponsored by Mr. A. Noman, had been reviewed by two Bank staff and two external reviewers (their reports are attached). It was evaluated by a REPAC subcommittee whose views and recommendations are as follows.

2. The subcommittee noted that the reviews were mixed but agreed with the referees on the importance of the subject and the excellent track record of Professor Lipton. It thought that the proposed research would have great direct and immediate relevance to project and policy work both in the Bank and member countries. It found the hypotheses critical and provocative. It however disagreed with the organizational approach to the conduct of the research. As outlined in the proposal, the study on Sri Lanka would be done by Mr. Pain (a plant geneticist) and the study on Sierra Leone by Mr. Richards (an anthropologist). These two senior researchers were chosen because they have already done work on their respective country and thus have extensive local contacts. The proposal programs a lengthy stay for them (12 months and 6 months respectively) in the field to collect very detailed data and information and conduct interviews. Their separate studies would then be integrated together by Professor Lipton who would be responsible for the comparative analysis and overview. The subcommittee was concerned about the apparent dissymmetry between the two country studies, given the different backgrounds of Messrs. Pain and Richards, and the lack of a clear common analytical framework to guide them. It was its view that for the central purpose of the research (i.e. to investigate the causes of success or failure of AR focussing on its content and management aspects) most of the relevant data and information were readily available and that it was not necessary to program such a lengthy field stay for the two country researchers. It would favor a more broadbrush approach across a slightly larger number of countries (i.e. two or three more rice-growing West African countries in addition to Sierra Leone and Sri Lanka) with Professor Lipton taking the lead for the field work in all these locations. It believed that such an approach could yield quicker results and more useful insights (however impressionistic) in a more cost-effective manner.

3. Thus while it supports the thrust of the proposal, REPAC decided that before funding this proposal it would like the proposal be resubmitted after the design of the conduct of the research has been revised along the lines suggested above; the budget should also be revised accordingly.

Attachments

cc and cleared with: Mr. D. Lal

cc: Mr. A. Noman
REPAC Members

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: December 8, 1986

TO:

FROM:

EXTENSION:

SUBJECT: **Afro-Asian Transfers of "Lessons from Experience" in Agricultural Policy: Framework and Case Study of Rice Resource in Sri Lanka and Sierra Leone.**

1. While there are real hazards in naive generalizations between countries with markedly different environments, economies, and cultures, either indigenous or professional, comparative analytical work between Asian and African countries does suggest itself as a fruitful garden for academic labour. The fact that this proposed project is patently a tacking together of the disparate research interests of three Englishmen with an overlapping interest in agricultural research (AR) does not detract from the possibility that they will dig deeply and profitably in that garden.

2. There is no question that the flow of appropriate, locally generated technology to African farmers has been sorely deficient, and that along with problems of farm incentives, infrastructure, and pervasive institutional and economic decay, this has contributed to the wretched performance of their agricultural sectors. The fact that the Bank is heavily involved in African AR (through SPAAR and a concerted series of projects, as well as through the CG system) reflects the considered view that AR investments can and should have high economic returns and that at least part of the problem is with the AR systems themselves. The expansion of these systems accompanied by the decline in their useful impact on the agricultural sectors they supposedly serve, impels, it seems to me, an investigation as to why. The fact that this negative experience is not shared by a number of countries, particularly in Asia, suggests that an Afro-Asian comparative component would enrich such an investigation, allowing the contrasting of approaches, institutions and factors which have worked with others that have not.

3. For the above reasons, my own view is that the project should be funded from the research support budget. It feeds directly into the project and policy work of the Bank (in fact, that work could be regarded as deficient without it or something like it), it addresses highly pertinent questions that have arisen on a crucial topic in a problematic area of the world, and it brings together a competent and imaginative team of investigators who have developed good local knowledge and connections in the countries in which they are working.

4. Having said that, and while agreeing that the focus of attention should be on the internal political economy and decision making of the AR system itself, it occurs to me that the proposal fails to give adequate attention to the deterioration in the entire economic and institutional environment as an explanation for the failure of AR to play its role in the

Sierra Leone case. It may be that the distortions and breakdown of that environment are a major, and perhaps adequate explanation for that failure. It would be totally surprising to find a country's AR system as an island of functioning institutions and professionalism in an environment of political and economic degeneration.

5. The decline in real incomes and the sheer needs of survival, where even the military vehicles of senior officers are simply hired out, complete with staff drivers, to the highest bidder, and fuel, along with spares equipment, inputs, and practically everything else, is only available, if at all, on the illegal market, virtually preclude such an island. The Bandaranaike period in Sri Lanka was one of extraordinary economic mismanagement, with the unbridled growth of a politicized bureaucracy, but it was no match for the pervasiveness, duration, and extent of the breakdown in Sierra Leone. As in Ghana, Guinea, Uganda and a number of other African countries, the overwhelming problems have come from outside the AR system, and to focus on the system itself runs the danger of blaming the victim, and condemning institutions and processes that might have worked well, and have come up with a range of self-correcting measures, in a different macro environment.

6. Having said that, there is now an enormous regenerative task that a number of countries face as they start on the slow and difficult process of reform and adjustment. (Sierra Leone is finally, with many a hicup, getting into this process.) My own view is that a number of the new institutions that service farmers must now be commercially self-sustaining, or else interrelate (testing veracity, etc.) with systems that are. The tradition of AR posts as sinecures for academics or "researchers" who are not delivering useful material to the farm production and trading system, is going to have to give way to a leaner, meaner and more functional system. At the moment it is hard to know where the feather-bedding stops and productive professional work begins and cuts and re-thinking are going to have to be deep. In my view, the final test of this project will be whether or not it can contribute to that adjustment process. My own feeling is that it can, and that it should be supported. I believe, however, that the investigators need to bear the challenge in mind in their work.

cc:

November 12, 1986

Ms. Phi Anh Plesch, Secretary
Research Projects Approval Committee
Economics and Research
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Dear Ms. Plesch:

This is in response to your letter of November 3, asking me to review and comment on the research proposal on "Afro-Asian Transfers of 'Lessons from Experience' in Agricultural Policy: Framework, and Case Study of Rice Research in Sri Lanka and Sierra Leone".

The authors are concerned with the issue of why research productivity in Africa continues to remain below the levels achieved in Asia. They proposed to explore this issue by examining research and agricultural productivity experience with respect to rice in Sri Lanka and Sierra Leone.

The issue the author intends to explore is important. The authors have a clear conception of the problem. The methodology that they propose is as well developed. It is not so highly formalized that it will become a barrier to the modifications that will have to be made as the study progresses.

I was a bit surprised by the lack of references to relevant literature by West African students of technical change and research policy. I have in mind, for example, the several papers and reports by F.S. Idachaba (see, for example, Agricultural Research Policy in Nigeria (Washington, D.C.; International Food Policy Research Institute Report =17, 1980), and by Dunstan Spencer (American Journal of Agricultural Economics; December, 1984, pp.671-676) as well as papers by several staff members at IITA and WARDA.

I strongly support the proposed research and I will be anxious to see the results.

November 10, 1986

Ms. Phi Anh Plesch
Secretary to the Research Projects
Approval Committee
Economics and Research
The World Bank
1818 H St., N.W.
Washington, D.C. 20433

Dear Ms. Plesch:

I am enclosing comments on the project "Afro-Asian Transfer of Lessons".

Basically my rating of the project in terms of the methodology, the choice of problem and the focus of the study is that it is a weak proposal. When ranked against other Bank proposals that I have seen, USAID proposals or NSF proposals, I would give this a rating roughly as follows:

Clarity of Objectives	6
Methodology	3-5
Organization	6
Possible contribution to Bank programming	7-9

This rating is based on a 1-10 scale and I would not expect projects with ratings below 6 to be funded. For most a rating of 8 or better would be required although the Bank's procedures and track record has the reputation for being somewhat erratic (e.g., rejection of projects with good rankings). The point here is that the only reason to consider funding this project is that it fills a critical "niche" in the literature and is of high importance to the Bank.

I recognize that the Bank is seriously developing loan programs for African agriculture. I judge that the expected output of this project is probably a little above the contributions that Bank Mission reports make or that Consulting Firm studies such as the DEVRES study can make.

The Bank essentially has to ask whether a revised and reformulated project is worth enough to the Bank at present to justify a request for a revised project. As it stands the project is too poorly formulated to proceed with

in my judgment, but I could see the possibility that the Bank priorities could be such as to call for a revised project.

In one sense the strength of the proposal is in the interpretative work; this is Lipton's contribution and it isn't easy to specify a methodology for this. I am willing to go along with the argument that one should "look at the track record" up to a point. However, there is no excuse for not specfying the nature of the survey's proposal including the sampling design. Unless these surveys are carefully designed they will yield nothing of value. The questions have to be specified. What is the point of asking farmers for their "wishes"?

The previous background of the researchers has two positive notes. One is the broad experience of Lipton. I would expect some useful interpretation from him. The other is the insights of a plant breeder. The proposal is particularly disappointing in not suggesting how rice breeding programs have been designed and pursued. The role of IRRI material is particularly relevant. Yet we see little mention of it. IRRI has documented a great deal of material in its breeding program, the GEU program and surely the links of these two rice research centers with IRRI and WARDA is of interest.

The proposal generally lacks a solid sense of input-output measurement for these systems. Rice research programs produce varieties - agronomic practice recommendations, etc. Outputs should be carefully documented. Then one should ask about their value to farmers.

I could go further with suggestions, but as far as the project itself is concerned I cannot recommend funding it in its present state of development. The question faced by the Bank is whether the field is of sufficiently high value to the Bank programming that a request for revision and clarification of methods, etc., is justified.

If the judgment is made that it is not worth asking for a revised project, the Bank may still wish to consider asking Lipton to spend a month or two writing up work underway and interpretating it in the context of Bank programming issues.

Sincerely,

Enclosure

Review: Afro-Asian Transfer of Lessons

General Comment: This proposal is mistitled, inadequate in its methodological outline, incomplete in some details and somewhat uncoordinated in terms of timing and work. These flaws should ordinarily be enough to reject it. Yet there is a "niche" in the literature that is not presently filled and this project probably comes closer to filling it than any other project on the horizon. It has policy relevance given the Bank's concern with African agriculture.

Existing studies in AR are strictly descriptive as the DEVRES work, quantitative ex post studies, or they tend to fall into the normative evaluative work of Bank missions or of CGIAR and ISNAR studies. Serious work on the institutional history of research systems, especially of plant breeding work in developing countries really hasn't been done. ISNAR, which should be doing this, is not really doing so. Most ex post scholars do not get into these questions.

The proposed study does build on prior work. In spite of its flaws, some of which might be remedied, (see below), the proposed product, (the book) is probably going to be worth more than any Bank, FAO, ISNAR or other mission report likely to come out soon in terms of guidance to Bank policy.

Special Comments

Title:

The term "transfer" in the title suggests more transfer of lessons than is likely. I would see it more as a comparative study - but much of the value will be a painstaking study of the history and experience of the two systems.

Objectives - I.A.

It is appropriate to ask the question posed, although the evidence for poor AR performance in Africa is not very complete. The comment on p2 (paragraph 3)

regarding research is proportion to area implies that little attention should be given to congruence. Problems of training, salaries, etc. might be mentioned here.

Objectives - I.B.

The distinction between "gradualist" institutional building and projectized (breakthrough oriented) is useful and shows some of the promise in the proposal. More technological insight might be brought to bear here, e.g., breeding program strategies requiring time and germplasm development. (Incidentally, the IRRI breeding program strategies could very profitably be analyzed along with these two countries - the high volume crossing and GEU program is a model for other stations - the work of Hargrove and others should be examined here.)

I.B. 2 (p4) Research stations don't necessarily see the balance implied in this section - most researchers cannot rely on farmer's wishes in designing programs because proper design rests on scientific knowledge - although they should least estimate profitabiiity of their product on farms (the use of the term "wishes" is worrisome as it is implies a non-rigerous sociological approach that could lead to much nonsense).

(P5) it is not clear that AR and IADP's are very closely related - perhaps they should be.

I.F. Choice of Countries. The proposal exploits prior work and contacts. There is a danger that it is adding little to prior work, i.e., funding incomplete work. The visits and collaboration are quite piecemeal in nature although this style of work has apparently been used before by the authors.

Design

In effect the proposal admits to not having a rigorous methodology. It claims no cross-disciplinary methodology exists. This is going too far. A number of historical and comparative studies of this general nature have

probably been conducted before.

P10. Sierra Leone

Component 1 appears to be valuable. Component 2 should spell out the breeding program procedures, crosses, etc., more clearly, parent varieties, etc. (Hargrove). But where is the hard evidence on the value of these varieties to come from (from farmer focussed assessments, questionaires and field traverses (windshield surveys?)). This component should be seriously done. Measurements of yield effects of varieties should be made. What kind of data are available? Procedures for analyzing it?

Component 3 is really problemetical - what is to be sought? A mechanism for conveying client demands to scientists? If so it should be approached as such. An assessment of (uninformed) wishes by women farmers etc. The business of client demand expression is important but this sounds like bad sociology in places (how do you feel about things and what would you like for the future?).

Sri Lanka

Why aren't the components better coordinated with Sierra Leone?

In fact component 1 is the same in both cases. Components 2, 3, 4, 6 in Sri Lanka are similar to component 2 for Sierra Leone,

The Sri Lanka component are clearly better specified and should be used for both countries.

Component 6 is incomplete. Is this to be another field traverse survey, how many respondents? A survey in probably worth doing but only if properly designed - what is to be sought costs - yields? Is it to be a stratified design by agro-ecological situation? (P13) Is an agro-ecological design available?

III. Organization

A. Sierra Leone

(P14). Second component. If questionnaires are available they should be appended. Also what is the survey design - randomization procedures? Also how is the introduction of improved varieties in several villages to be handled? For this kind of study proper procedures are required or little can be inferred from the data.

The futures component doesn't look any better with this statement.

Sri Leone - this is somewhat better.

The budget is not out of line.

COMMENTS ON A RESEARCH PROPOSAL:
AFRO-ASIA TRANSFER OF LESSONS FROM EXPERIENCE IN AGRICULTURAL POLICY

The proposal is to compare agricultural research on rice in Sri Lanka and Sierra Leone. The presumption is that rice research in Sri Lanka is generally successful, while in Sierra Leone it is mostly a failure. It is suggested by the authors that the proposed study can be expected to be productive because (1) rice growing conditions in Sri Lanka and Sierra Leone are similar, differences in performance can be expected to be due to differences in institutions and modes of operation and not to differences in natural endowments; and (2) agricultural research in Africa at large is inefficient and the analysis can serve as a case study with implications for research systems in other African countries.

I am not familiar with the countries and their research systems, my comments are based on the material before me.

The problem raised in the proposal--why research systems differ in performance and what can be done to improve them--is interesting and important. Though differences in the performance of the research systems probably reflect basic differences between the countries in institutional, cultural, social and economic conditions, the study of a relatively narrow area can still be useful. There is very little that outside agencies can do to change the determinants of the economic performance of a country, but a lot can be done to improve the working of a relatively small system or a single institution; and if the study is to contribute toward such an improvement, it is worth undertaking.

The authors of the proposal intend to visit the countries and to

collect information on the agricultural research systems and the farming sectors. However, it is not explained clearly what they will do with the information gathered. The authors recognize this deficiency themselves and write (on p. 9) that they still do not have an analytical framework, and that their proposal should be judged by past work.

I saw three pieces that the authors recommended: Lipton and Longhurst, 1985, Lipton, 1986, and Richards, 1986. Judging from these references, it seems that the study will yield careful descriptions of the research systems (Richards) and that the authors will not shy away from criticism, recommendations and suggestions (Lipton). Although a formal analytical framework is not put forward, a general conceptual approach, perhaps even a doctrine, can be recognized; namely, research should be better attuned to the farmers' conditions and needs.

This approach is acceptable but also trivial and may be misleading. True, successful agricultural research yields technologies that are adopted by farmers; successful research can be judged to have been conducted with the farmers' needs in mind. However, it is not always clear what farmers' needs are. Research increases productivity and may reduce the demand for labor in agriculture, including the demand for the labor of the self employed--is this in line with the needs of the farmers? Moreover, even if the goals of research are agreed upon, the challenge of the analysis is not to point to areas in which research was not conducted consistently with these goals, but rather to analyze the institutional structure and other determinants that are effective in creating the environment in which research is directed and done in such a way that the desired objectives are achieved. I do not see from the proposal how this problem will be approached. The hypotheses offered (on p.4,

for example) are either rather simple (that budgets should be stable) or I do not see their meaning (that research should be gradualistic and not break-through oriented).

To my judgement, it will be useful if the proposed study concentrates on detailed description of the research systems: staffing, quality of personnel, facilities, decisions on problems to work on, methods, past successes and failures in the station and the lab, successes and failures in transferring technology to the farmers. Such accurate pictures will enable the readers of the reports to understand the potentials of the research systems and the problems each faces. I would expect the discussions of policy issues to be more speculative in nature, not analytical, and would suggest that their weight in the study be minimal.

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE December 18, 1986

TO Mr. Gregory K. Ingram, Director, DRD

FROM Phi Anh Plesch PAP

EXTENSION 33484

SUBJECT Research Proposal: "A Comparative Study of Savings Behavior in Developing Countries"

1. The proposal had been reviewed by seven referees, four of whom are external (see attached reports). It was then evaluated by a REPAC subcommittee whose members had also met with the DRD research team to discuss the issues raised by the referees. REPAC considered the proposal at its meeting on November 25. Its views and recommendations were sent to the Vice President, ERS, who concurred with them.

2. As reported by the subcommittee, the proposal in general got a negative review from all referees except one. You will find a summary of the main issues of concern raised by these referees in the attached subcommittee report. I only list them here: i) The proposal was considered to be too ambitious and too all-encompassing in terms of issues to be studied. ii) It put too much emphasis on academic tasks (i.e. testing theoretical models) and too little emphasis on policy analysis. iii) It did not provide an adequate discussion of the research strategy or methodology to be utilized. iv) Of particular concern was the problematic nature of data availability, their quality and comparability across countries. These are critical in determining the likely value of the whole study, and therefore should be properly assessed prior to funding such a study. v) The survey of empirical research in developed countries could have been more systematic in providing the basis for limiting the scope of the research in developing countries. vi) Finally managerial responsibility are diffused, raising the issues of coordination.

3. All of the above concerns were shared by REPAC members and were serious enough to persuade them that as such the proposal could not be supported. They discussed the various recommendations made by the referees which were not all consistent but which generally pointed in the direction of clearer definition of objectives, reduced scope of work and a phased approach. They did not favor recommending the phased approach as in their opinion phasing was not the principal issue. Rather they would recommend a fresh approach to the subject that could result in a new proposal which would be less ambitious and more focussed in two respects:

i) on the choice of specific policy questions which should guide the need to study and estimate specific behavioral relationships and should determine the required quality and quantity of data.

ii) on a much smaller number of countries (say three or four), as it is not obvious that there is much to be gained from including as many as twelve countries in the study. The risk of non-comparability of data and lack of in-depth analysis of its quality (which will reduce the reliability of results) is substantially larger than the possible gain of obtaining more interesting results through greater variability across countries.

4. REPAC however made it clear that there would be no prior commitment on its part regarding the possible financing of a revised proposal.

PAP/ea

cc and cleared with: Mr. D. Lal

cc: Messrs./Mmes. M. Khan, U. Lele, N. ul-Haque, I. Nabi, A. Virmani
G. Sicat, V. Corbo, DRD
REPAC Members

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DEC 19 1986

DATE December 17, 1986

TO Mr. Jean Baneth, Director, EPD

FROM Phi Anh Plesch, Secretary, REPAC

EXTENSION 33484

SUBJECT Research Proposal: "Sovereign Borrowing, Debt and Default in the Interwar Years: Lessons for the 1980s"

1. The proposal, as amended in your memorandum accompanying it, had been reviewed by three referees, two of whom are external (their reports are attached). It was then evaluated by a REPAC subcommittee whose views and recommendations are reported below.

2. The subcommittee shared the referees' views that the issues addressed in the proposal were of important concern to the Bank and to the current debate and an examination of the historical experience would help to illuminate contemporary problems and questions. The subcommittee's main concern was about the political sensitivity of the research results and the eventual conclusions that will be drawn. Thus the question of presentation and dissemination of the research's output would loom important from the Bank's standpoint and the subcommittee stressed the need for careful vetting of this output through Bank channels. While it is willing to go along with the referees' unanimous recommendation to support the proposal, it would make its approval conditional on EPD and the sponsoring staff (Mr. J. Underwood) taking a more active role in supervising the project, ensuring its policy relevance to the Bank and in overseeing the publication and dissemination of the research's results. Regarding the budget, the subcommittee thought that it contained excessive allowances for research assistance, travel and "other contractual costs." REPAC does not normally fund the latter expense category. The subcommittee therefore made the necessary cuts and adjusted the budget downwards to $60,000. This is the amount it would be willing to authorize for the project from the RSB.

3. In summary, the REPAC subcommittee has recommended that the proposal be approved subject to two conditions:

i) that the EPD sponsoring staff (Mr. J. Underwood) take a more active role in supervising the project and overseeing the ways in which results will be presented and disseminated, given the sensitivity of the issues and the potential implications of the results and conclusions.

ii) that REPAC's contribution be reduced to $60,000.

4. The above recommendation has been endorsed by the Vice President, ERS.

5. Upon notification of your acceptance of the conditions attached to REPAC's approval of the project, an identification code and the financial authorization will be issued for that project.

PAP/ea

Attachments

cc and cleared with: Mr. D. Lal

cc: Messrs. J. Underwood, C. Larkum, EPD
REPAC Members

COMMENTS ON THE PORTES AND EICHENGREEN PROPOSAL

This is a proposal for some important research by two researchers who are extremely well qualified to carry it out. They are asking relevant questions and using a unique data sample and sensible approaches for obtaining the answers. I strongly recommend financing the project. I have only one qualification. To be sure the project is useful to current policy, the authors should be urged, not simply to confine their discussion to the 1930s or to determining how the 30s compare with the 80s, but to analyse what lessons they provide for the future.

The global debt crisis is evolving. The patchwork provision of transitory financing not longer suffices. The policy debate turns now to questions of alternative mechanisms for debt relief and financing new LDC borrowing. The 1930s experience offers important insights on these questions. Accordingly, in their original proposal, the authors plan a four-part study including: a) an investigation of the determinants of default; b)a study of market behavior in anticipating risk and ex post, in penalizing default; c) a study the macroeconomic experience under default using time series and d) detailed case studies of the default experience. The ammended proposal (Baneth, October 1, 1986) drops (a) and adds a study of institutional issues, including the form of debtor-creditor negotiations and the implications of these issues for the eventual resolution of debt service problems.

Unfortunately, the full details of this part of the research were not presented to me. Nonetheless, I agree with the thrust of the change. To be useful to the bank (and the current policy debate) the authors must not simply study history for history's sake. They must explicitly think through the implications of that history for the current debate. They should tell us to what extent their conclusions are relevant to the current situation. In the contract for this project, therefore, I recommend that the authors be required to draw out the policy implications of their findings.

Portes and Eichengreen

Sovereign Borrowing....

This looks like a reasonably good proposal. The issue of the causes and consequences of debt servicing problems is clearly an issue of vital concern to the bank, and an examination of the historical experience has much contribute to our understanding of the problems, even if there have been important changes in economic structures and institutions in the meanwhile. Of particular interest, I think, is an examination of the consequences for creditors and for debtors of extended interruptions to debt service.

The authors do not provide enough details for me to evaluate their macro-economic models. In particular, I am concerned about how they will be able to sort out the simultaneity problems in ascertaining relations, say, between growth and debt service problems. Similarly, one can view the decision for a loan to be in default to be an endogenous decision (a consequence of the bargaining stances of both the lender and the borrower; either is an a position to avoid a default, one by simply re-lending the amount owed, the other by changing policies to raise the requisite revenues). The authors recognize some of these endogeneity problems (e.g. on p. 7, where they point out that "some commentators have suggested that our fiscal policy variable may have an endogenous component...." If the authors could make real progress to the formulation of a simultaneous equation

model, it would be a significant improvement over the single equation models prevalent in the empirical literature, which provide us with information concerning correlations, but with little structural information.

They propose to "put empirical content into the difficult distinction between illiquidity and insolvency...." I am not sure that the concept of insolvency has much relevance, at least in many instances of concern. Insolvency for a firm is easy to define: its assets are less than its liabilities. Insolvency for a country is not so easy to define: the assets are almost never less than the total liabilities. Insolvency may be related to the taxing power of the government, but this surely depends on a number of features of the economy to which attention should be paid.

In the discussion of the markets' assessment of lending risk, the authors should compare the markets' behavior here with its evaluation of default risk in other (domestic) markets. There is a consensus that the market charges more than an actuarially fair premium for risk bearing.

The comparison of risk premiums in international markets in earlier periods and today should be of considerable interest; but again, the authors should compare the performance in this market with the performance in other markets.

An aspect of the capital market to which the authors give insufficient attention is the change from a bond market to a bank-loan market. The incentives for declaring a loan in default

may be markedly different in the two situations. This may be particularly true with U.S. bank regulations. It would be worthwhile ascertaining whether this change has in fact made an important difference.

I would recommend funding, though I would like to be assured that the problems raised above were at least partially resolved before I granted full funding.

:tober 30,1986

To: Phi Anh Plesch, Secretary, REPAC

From:

Subject: Review of research proposal: "Sovereign borrowing, Debt and default in the inter-war years: Lessons for the 1980's"

1. I fully support this project. Eichengreen and Portes have already demonstrated that adequate historical data is available to undertak important econometric work. The extension of their past work along the lines indicated by the proposal should be very worthwhile.

2. That said, I would suggest that more guidance be given the researcher at an early stage to ensure that the output is relevant for Bank policy and not just for Bank journals. Perhaps this is why the project is structured with a major review during the first six months. I am not quite sure about the purpose of this as the additional stages of the project do not depend on the success or failure of stage 1. If the intent is to define more specifically the ground to be covered in stages 2-4, this should be done immediately rather than after project approval.

. I raise this issue because it seems that there may be important points that will fall between the cracks given the decision to drop the study of the determinants of default: (i) the link between government policies a avoiding default is still very relevant for many borrowers who have n yet run into debt servicing difficulties (India, China, Thailand. . .). do not see where this would be covered now; (ii) are there contagio effects in capital markets? That is, does the presence of the debt crisi in some countries limit the options of other countries in using extern capital? (iii) what is the role of official assistance in preventi default or in easing the consequences?

4. Finally, I would like to see some direct empirical analysis th includes both the historical pre-war data and contemporaneous data. It should be possible to test directly the extent to which historical episodes of default have the same characteristics as current strings reschedulings. While the proposal summary indicates that a comparison wi be made, this is not spelled out in the detailing of the tasks. I fe such a comparison is particularly important if the empirical work is have credibility for current policy-making.

5. There is no budget breakdown, so I cannot make any judgment on th financial size of the project.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE December 11, 1986

TO Messrs. G. Edward Schuh, Director, AGR
V. Dubey, Director, CPD

FROM Phi Anh Plesch, Secretary, REPAC

EXTENSION 33484

SUBJECT Research Proposal: "International and Macroeconomic Policies in Agricultural Development"

1. The above proposal had been reviewed by four referees, two of whom are external. It was then evaluated by a REPAC subcommittee who also had met with the research team as part of the review process. REPAC considered the proposal at its meeting on November 25. Its views and recommendations are summarized below.

3. REPAC's views on the proposal essentially reflected those expressed by the referees and the subcommittee (their reports are attached). As you can see from these reports, all reviewers were in general negative in their assessments. They considered the proposal as extremely ambitious, the tasks involved very complex, and the project's success in deriving policy implications uncertain. Their major concerns, as summarized in the attached subcommittee report, related to three areas:

i) Relationship with other studies: It was noted that vast resources have been expended in the Bank and elsewhere to investigate the same sets of policy interactions identified in the proposal. Questions were raised about the net value-added of the proposed research to the literature and about whether the sponsors have capitalized enough on previous relevant work in the formulation of this research.

ii) Model/framework: The proposal is deliberately vague in the formulation of the analytical framework and specification of the model to be used, arguing that full model specification would require breaking some new ground and thus should be part of the conduct of the research. It only provides a sketchy outline of the modelling approach that would be taken. Referees however did not see how the proposed approach would capture some of the relationships mentioned in the proposal. The researchers have provided further elaboration on their model in discussions with the subcommittee. But the

subcommittee had doubts about the appropriateness of the intertemporal approach suggested by them. It shared the referees' views that full specification of the model called for in this exercise is an extremely complex task and the probability of its success not high. There were concerns that the researchers did not seem to fully appreciate the problems associated with it.

iii) Policy relevance: Doubts about the model raised doubts about the usefulness of the research for policy purposes. It was also uncertain as to whether the model could be simple enough to be readily used by economists in the course of operational work.

3. As REPAC members shared all the above concerns, they have decided not to approve the proposal. The Vice President, ERS, concurred with this decision.

cc and cleared with: Mr. D. Lal

cc: Messrs. G. Feder, G. O'Mara, V. Le-Si, H. Binswanger
T. Bertrand, AGR
A. Feltenstein, J. Khalilzadeh-Shirazi, B. Kavalsky, CPD
REPAC Members

The World Bank
Washington, D.C. 20433
U.S.A.

December 2, 1986

Professor T.N. Srinivasan
Economic Growth Center
Yale University
Box 1987, Yale Station
27 Hillhouse Avenue
New Haven, CT 06520-1987

Dear Professor Srinivasan:

As chairperson of the Research Policy Council, I would be grateful if you could determine whether the evaluations by the Bank's Research Projects Approval Committee of two completed research projects: "Social Accounts and Development Models" (RPO 671-27) and "Development of a SAM Basis for Planning and Modelling in Egypt" (RPO 672-25A):

(a) were professionally sound; and

(b) whether the evaluation process provided an adequate and fair peer review.

The Research Administrator's Office has provided you with all the available project outputs, the evaluation reports and correspondence on this matter with the project supervisor, Graham Pyatt. The Research Administrator's office has also asked Mr. Pyatt to send you any other material that he thinks might be relevant.

Thank you for undertaking this task.

With best wishes,

Anne O. Krueger
Vice President
Economics and Research

cc: RPC Members
REPAC Members
Professor G. Pyatt

OFFICE MEMORANDUM

DEC 0 1 1986

DATE November 26, 1986

TO REPAC Members

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Acting Chairman of REPAC

During the absence of Mr. Deepak Lal from December 1 to 9, Mr. Marcelo Selowsky will act as Chairman of REPAC.

cc: Mrs. A. O. Krueger

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DEC 01 1986

DATE November 26, 1986

TO Mr. E. J. Stoutjesdijk, Director, EM2

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "Cost Benefit Analysis of Food Subsidies in Morocco"

1. Thank you for submitting the above research proposal to REPAC. In light of the referees' reports (attached), REPAC has approved the proposal for funding from the Research Support Budget. The amount authorized is $26,800.

2. The project's identification code and financial authorization are issued as follows:

i)	Identification Code	674-16
ii)	FY87 Authorization	$13,800
iii)	FY88 Authorization	$13,000
iv)	Total Authorization	$26,800

Please use the identification code in all financial documents and correspondence concerning this project, including letters of appointment to consultants.

3. Please note that since the project is scheduled to be completed on January 1, 1988, according to REPAC's rules, it will be closed on June 30, 1988. The sponsor will be required to file a completion report on or before the project's closing date.

cc and cleared with: Mr. D. Lal

cc: Messrs/Mmes. J. Shilling, A. Mateus, E. Asfour, J. Belvaude, EM2
J. van der Gaag, G. Ingram, DRD
S. Panickaveetil, M. Tonson, PBD
K. Hannemann, M. Herndon, ACT
R. Pearson, SVPM1
B. Ross-Larson, CON
S. Aiyar, V. Mataac, F. Jessup, VPERS
A. McAlister, BRDC
REPAC Members

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE November 24, 1986

TO Mrs. Phi Anh Plesch, VPERS

FROM

EXTENSION

SUBJECT Morocco: Research Proposal for a Cost-Benefit Analysis of Food Subsidies

This is an excellent proposal and I recommend it for approval. The topic is important from the viewpoint of policy, methodology and empirical evidence. It should be useful for Bank policy advice and policy-makers in Morocco as well as in other countries with similar food subsidy programs. The suggested research strategy and discussion of methodological aspects are excellent, and the RSB funding requirements are modest.

To elaborate on some of the points mentioned above:

1. The study is very timely and relevant, given the Bank and IMF programs in Morocco. It is also relevant for other countries (such as Egypt, Sudan, Tunisia, etc.) with large food subsidies which are a drain on government budgets.

2. Attempts have been made to target food subsidies to the poorest segments of the population so as to reduce the fiscal cost of food subsidies but still protecting the nutritional requirements of the neediest. I believe the most effective method to target successfully is the one suggested in this proposal, i.e., to subsidize one or more inferior goods which are nutritionally rich.

3. To identify adequate inferior goods, income (and price) elasticities must be estimated in a complete demand system, which is what this study intends to do.

4. The main researcher seems to have a good understanding of analytical, methodological and empirical issues, and he can count on the support (and approval) of economists in DRDLS, EMENA, and of Angus Deaton (an important contributor to consumer demand theory).

5. The methodology used and the empirical results of the analysis of data from a recent survey should be useful to the Bank, to policy-makers in Morocco and to others.

6. The required funds are modest, and if it goes according to plan the proposed study should provide an excellent return on investment for the Bank.

One question I have is whether the level of subsidy on the inferior good (and of w) should be determined only so as to satisfy the inequality $S_T > G_T$, or whether one might want to determine the subsidy level so as to insure a certain level of nutrition of the poorest population group. There should be no problem in incorporating such a constraint.

Some relevant issues which probably cannot be addressed in this study, given its scope and data base, relate to the relationship between food prices and the nominal wage. Elimination of food subsidies will result in a reduction in real wages for most groups. Some groups may be able to avoid part of that reduction by obtaining higher wages, thus passing on part of the cost of the food price increase to private employers and/or to the government. This may affect the calculations of consumer surplus and government cost. The author should at least discuss the importance of this phenomenon for Morocco and its effect on the results of the study.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE November 18, 1986

TO Mrs. Phi Anh Plesch, Secretary, REPAC

FROM

EXTENSION

SUBJECT Research Proposal: "Cost Benefit Analysis of Food Subsidies in Morocco"

1. I recommend approval of this research proposal for the reasons cited in para. 4 of Mr. Shilling's memorandum to Mr. Lal (November 4). Access to the cited data will be valuable, as the Bank proceeds to discuss options for improving the cost-effectiveness of food subsidies in Morocco.

2. I am much less convinced about the potential usefulness of the particular kind of cost-benefit analysis being proposed (Net Benefit = Consumer Surplus - Government Cost). By this criterion, any commodity for which the demand is inelastic can be subsidized at little (social) cost, irrespective of the distribution of benefits. This ignores of course the cost of making the income transfers from consumers to the government. The other criterion used in analyzing subsidies - government cost-effectiveness - is of course precisely subject for criticism because it ignores the consumer surplus transferred to the non-target population. The only point to be made here is that there are advantages and disadvantages to the proposed criterion which still need to be explored before application.

3. The proposal to investigate whether variations in prices paid by different households have a sound basis or are simply measurement errors is intriguing. I am looking forward to a more precise specification of the prices function; in particular how the researcher intends to specify and measure the spatial variable. In any case, investigation of how to derive prices from expenditure surveys is by itself worth the small investment in this research project.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE November 4, 1986

TO Mr. Vinod Dubey, Director, CPD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: Applications and Extension of the "Debt Problem and Growth" Paper

Your above-titled research proposal was reviewed by two referees, one internal and one external. I regret to inform you and the sponsor that in line with the referees' reports (attached), REPAC unfortunately cannot fund this proposal.

PAP/ea

cc and cleared with: Mr. D. Lal

cc: Messrs. M. Selowsky, B. Kavalsky, CPD
REPAC Members

October 28, 1986

Ms. Phi Anh Plesch
Secretary to the Research Projects Approval Committee
Economics and Research
The World Bank
1818 H Street NW
Washington, D.C. 20433

Dear Ms. Plesch:

Enclosed please find my review of the project proposal "Applications and Extensions of the 'Debt Problems and Growth' Paper". I do not recommend that it be funded.

I hope that you find my comments useful.

Sincerely,

Review of "Applications and Extensions of the 'Debt Problems and Growth' Paper"

The proposed research is to simulate debt trajectories for several large debtor countries. The proposal contains a completed, forthcoming paper and three pages proposing further work. Good forecasts of future borrowing are obviously important to Bank operations. Nevertheless, I have serious reservations both about the completed study and about the proposed extensions.

The completed model projects borrowing on the basis of a model in which technology is described by a fixed incremental capital-output ratio. GDP and consumption growth paths are specified exogenously. Borrowing is projected as the difference between the investment needed to finance GDP growth and the savings implied by the consumption path. To ensure that the level of debt is bounded from above the GDP growth rate is kept above the consumption growth rate, at least during the initial phase of the simulation.

These assumptions are very simple, and simulations based on models of this type go back to Domar and Avramovic. There are many more sophisticated dynamic models around that should be amenable to studying these issues. For example, introducing a neoclassical production function would allow for some possibility of substitution between capital and other factors of production.

Even though the model identifies only one commodity, at various points (e.g., page 6, page 17) the trade surplus is discussed as if it is determined independently of savings and investment. There is no point in discussing import requirements and export growth as if these magnitudes affect borrowing over and above what is already implied by saving and investment behavior.

The paper compares three "strategies" for repaying debts characterized by different GDP and consumption growth rates. A discussion of which one is "preferable" appears on page 29. Why are only these three considered? Why not posit a government objective function and maximise it subject to the constraints imposed by the model? Techniques for doing this are well developed.

In summary, the completed paper does not apply state-of-the-art economic dynamics to analyse foreign borrowing. The results are not surprising either, largely replicating what other such descriptive models have said about "stages" in the balance of payments. Why previous work is not cited is not clear.

While the proposed extensions are in principle important, how they are to be implemented is left unspecified. It is unclear, for example, what is meant by "whether the adjustment has been constrained by the growth in the savings or export surpluses". In a neoclassical model there is no distinction between these. One fears that a resurrection of the "two-gap" model is contemplated. Introducing nontraded goods is a particularly important step, but how it is to be done is left vague. Is each sector to have its own ICOR? It is also unclear what is meant by an "active" exchange rate policy, especially in a nonmonetary model.

In summary, I do not see that the proposed research will add significantly to our understanding of the repayment prospects of the major debtor countries. The methodology to be used is similar to what I understand is applied routinely by the Country Analysis and Projections Division.

OFFICE MEMORANDUM

DATE: October 22, 1986 CONFIDENTIAL

TO: Ms. Phi Anh Plesch, VPERS

FROM:

Ext.:

SUBJECT: Applications and Extension of the "Debt Problem and Growth" Paper

The purpose of this project is to expand the model developed by Selowsky and van der Tak and apply it to six highly indebted countries.

The original Selowsky-van der Tak paper, which I have re-read, is a very nice piece of Bank research. The strength of the paper was the policy message it conveyed, i.e., to support certain "minimum" rates of growth the developing countries needed far greater external financing than was being envisioned, particularly in the Baker plan. If this financing was not forthcoming, and since the possibilities of rapid and large-scale domestic resource mobilization were limited, countries would be hard pressed to keep per capita consumption levels from falling. The paper received a lot of press inside the Bank in view of its timeliness, and I feel it achieved a worthwhile purpose.

While the Selowsky-van der Tak approach was reasonable at an aggregative level (relevant to all indebted countries), I have serious reservations about its applicability to individual countries. Clearly one doesn't want to use this model (with different ICORS, savings propensities, and import propensities) directly. That would be equivalent to doing a set of RMSM exercises — which I imagine could be done in a couple of days!

What the investigator has in mind in this new project is something more. Basically he wishes to describe the adjustment experiences of the six countries in the last few years and relate them loosely to policies adopted. But surely such descriptions already exist, both within and outside the Bank. I think it is now time that we went beyond the more or less casual descriptive exercises and developed a proper analytical framework that linked policy instruments to savings, investment, growth and so on. Only then would we be able to objectively assess the adjustment efforts of particular countries and perform counterfactual experiments to determine the optimal mix of policies.

In view of the above, I see no significant value-added from this proposed project. I would not recommend funding by REPAC.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

NOV 0 3 1986

DATE October 31, 1986

TO Mr. Gregory K. Ingram, Director, DRD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Proposal for a "Conference on Political Economy and Trade"

1. REPAC has reviewed your proposal for a Conference on Political Economy and Trade and your request for funds from the RSB to finance part of its cost. As it considers the subject to be relevant and in line with the research priorities recommended by the Research Policy Council, and since its contribution is limited to funding the fees for authors and discussants, REPAC has decided to grant your request.

2. The project's identification code and financial authorization are therefore issued as follows:

i)	Identification Code	674-15
ii)	FY87 Authorization	$14,750
iii)	Total Authorization	$14,750

Please use the identification code in all financial documents and correspondence concerning this project, including letters of appointment to consultants.

3. Since the project is scheduled for completion on December 31, 1987, according to REPAC's rules, it will be closed on June 30, 1988. A completion report should be filed with the Research Administrator's office on or before the project's closing date.

cc and cleared with: Mr. D. Lal

cc: Messrs./Mmes. J. Bhagwati, V. Corbo, D. de Tray, J. Lowther, DRD
S. Panickaveetil, M. Tonson, PBD
K. Hannemann, M. Herndon, ACT
R. Pearson, SVPM1
B. Ross-Larson, CON
S. Aiyar, V. Mataac, F. Jessup, VPERS
A. McAlister, BRDC
REPAC Members

F.S. O'Brien
M. de Tray
NOV 03 1986

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: October 30, 1986

TO: Mr. Deepak Lal, VPERS

FROM: O. Yenal, AENVP

EXTENSION: 69006

SUBJECT: Research Coordinating Committee Meeting

1. I received your memo about tomorrow's meeting only today. It is dated October 29 for a meeting on October 31. This is obviously too short a notice and I regret I cannot attend.

2. This is also the first time I hear that I am a member of this Committee. I had seen a recommendation for the establishment of such a committee in "A Review of the Reorganization of Research Administration", but had not heard about its existence since this said report dated October 25, 1985.

3. Nor do I know what the terms of reference of this Committee is and what the urgent agenda is about. I am, therefore, reluctant to send a representative from our Region.

cc: Chief Economists
Mr. Linn

OYenal:sp

Dennis
for your information (deep background)
Steve O'Brien

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE October 8, 1986

TO Mr. Gregory K. Ingram, Director, DRD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "The Footwear Industry in Developing Countries and How It Adjusted To Non-Tariff Barriers to International Trade"

1. The above proposal had been reviewed by four referees and subsequently evaluated by a REPAC subcommittee (their reports are attached). REPAC considered it at two successive meetings on September 4 and September 30. Between the two meetings, the subcommittee at the request of REPAC met with the sponsor, Mr. J. de Melo, to discuss the several issues raised by REPAC at the first meeting.

2. These issues were:

i) Choice of the footwear industry as a prototype case study for research on NTBs: Members felt, and some strongly, that the choice was not an appropriate one. The case was too narrow and atypical and did not appear to be central to the debate on NTBs.

ii) The external impact of the research: Like with the earlier proposal, members were deeply worried about the potentially harmful effects of the research findings (e.g. their misuse by protectionists in trying to close "loopholes") and about the nature of advice that can be given to governments and exporters on how to avoid NTBs, etc. There were concerns that the regional economists (in particular for Brazil and Korea), although they had probably been consulted on the proposal, had not been fully aware of the external implications of this research.

iii) Methodology: As noted by the reviewers, the proposed methodologies raised some questions. It was particularly not clear how the issues of trade diversions and product quality changes are to be treated both in the demand and supply models. Transportation and marketing costs seemed to be neglected. There were doubts that the demand side could be modeled satisfactorily without the use of household expenditure data. As for supply side modeling, it was feared that the use of interview methods will not be convincing because of the risks of selectivity bias.

r. deaton

iv) Cost: The budget was deemed excessive. It was also noted that it contained exorbitant fees to be paid to one of the

external consultants.

3. Following the subcommittee's meeting with Mr. de Melo, issue i) has become less of a concern for REPAC. However all members remained seriously worried about the other issues, in particular about the study's external impact and its excessive cost. They also thought that some of the econometric work was not necessary. But arguments were also made that, as some reviewers had noted, the topic was important and deserved some support. After a difficult debate, members have come to agree to recommend their support for a research project in the proposed area provided its cost to REPAC do not exceed $100,000. They believed this amount is sufficient to allow the researchers to do most of the innovative work in the study (that is with less emphasis on the econometric estimates of "rationing"). They would ask the sponsor to redesign the research and to suggest an outline of the proposed book based on this reduced budget. Given the sensitive nature of the research, they would also require that in these special circumstances the sponsors obtain written support from the Chief Economists of the Regions on the choice of countries to be studied (Brazil and Korea).

4. In summary, REPAC has made the following recommendations to the Vice President, ERS, regarding this proposal:

i) to authorize $100,000 from RSB for the project

ii) to attach the following conditions to the release of the funds:

a. the sponsors redesign the research and suggest an outline of the book based on this reduced budget. The outline should be cleared by the REPAC subcommittee (Messrs. K. Dervis and I. J. Singh).
b. the sponsors provide REPAC with a clear written statement from the Chief Economists for LAC and AFA that they do not object to the choice of Brazil and Korea as the countries of study.
c. Professor Carl Hamilton be involved in this research.

5. Mrs. A. O. Krueger has approved all the above recommendations.

PAP/ea

cc and cleared with: Mr. D. Lal

cc: Messrs. J. de Melo, M. Finger, V. Corbo, DRD
REPAC Members

OFFICE MEMORANDUM

DATE: September 2, 1986

TO: Mr. Deepak Lal, VPERS

FROM: I. J. Singh, ASPID

EXTENSION: 32303

SUBJECT: "Footwear Industry in Developing Countries and How it Adapted to Non-Tariff Barriers"

1. There are several issues relating to this research proposal that came up in the process of review. I summarize these before outlining the sub-committee's recommendations to REPAC.

(a) Relevance of the Research Topic

There is general agreement that the issue of non-tariff barriers (NTB) is an important one and that a study of how NTBs operate and their implications for LDCs is worth studying. The fact that earlier studies in this area have focused much more on the impact of NTBs on trade diversion and welfare effects in importing countries also recommends a study that attempts to examine the implication for export country producers and their strategies for coping with the imposition of NTBs. That the study will be part of a broader set of studies presently focusing on trade issues and NTBs being done by other researchers in the Bank is also an advantage.

(b) Choice of the Footwear Industry

In contrast there is general agreement that the choice of the footwear industry as a case study is too narrow and not altogether appropriate for such an effort. The proposal makes a case for studying NTBs in footwear as "it is a natural place to start" because the industry is homogeneous, has transparent protective barriers that are easy to model, has fairly competitive and widespread production, is an industry in which NTBs have been placed and then removed and has good data sources. This case is not altogether convincing because the very nature of the NTBs in footwear and the way in which LDCs responded make it a special case. It is questionable whether what is learned from footwear would apply to other products or whether the study could serve the purpose of a useful guide on how countries should respond to NTBs. Further footwear seems to have been extensively studied already as the list of studies reviewed in the annex shows. Although each of the models is shown to have some shortcoming, what has been learned from all the work on footwear to date? Is there a clear reason for yet another model? The case seems to rest on the fact that this study will try to model the supply side and its welfare effects more carefully that have been neglected by other studies. But, neither the easiness of the modeling nor the supposed methodological advantages on the supply side (which has problems of its own) seemed to be reasons enough for the choice. The study of selected agricultural commodities or consumer electronics or even the machine tools industry would seem to be better choices from point of their importance to real trade issues affecting LDCs.

(c) Appropriateness of Methodology

Several concerns have also been raised about the methodologies being used. It is clear that the issues of trade diversion and upgrading of product lines is central to the response to NTBs. This all involves the modeling of segmented markets with strong substitution if the effects of importing NTBs are to be properly captured. Yet, it is not clear how this will be done. The demand side will require that the entire market be treated and the aggregate data available maybe inadequate for the estimation of the demand systems outlined in the annex because household expenditure data required are unavailable. Nor is it clear how trade diversions are to be treated; the transportation and marketing costs also seem to have been neglected. It is suggested that a study of a cross-section of industries using logit type modeling methods maybe more useful for such a study instead of the difficult to estimate demand models specified in the proposal.

Further while the demand systems are spelt out in great detail, the supply side models with technological changes, trade diversion and quality changes taking place among exporting firms and their implications for supply side welfare effects, are left fairly vague. Yet, this is one of the key reasons given for doing yet another study of the footwear industry. There are also concerns that the interview methods, to be used to assess the strategies of response by firms, will have selectivity bias. Nor is it clear exactly what data are available and whether they are appropriate to the methods being employed. The proposal greatly underestimates the difficulty of modeling a complex and segmented market with limited data perhaps of indifferent quality.

(d) Costs of Study

The costs of the study seem to be excessive and as one reviewer points out that "the amount requested is excessive from every possible point of view" and "is almost scandalous." The time and money proposed seem a lot for what is to be a case study of one product line. Although not going as far as the reviewer, we feel that the budget could definitely be trimmed by reducing the time of outside consultants and the excessive liberal travel allowances set aside for them. Additional economies are possible on research assistant time. The computer budgets also seem excessive- especially since they seem to be duplicated for both Washington and Bristol.

(e) Usefulnes and Dissemination of Output

As a reviewer has point out, it seems presumptuous to provide a detailed outline of a book as the main output of the research before it has even been carred out, and before its results, findings, and quality have been reviewed! (Could there be a feeling among Bank sponsored researchers that whatever they write will inevitably be published by the Bank as a book irrespective of quaity or are they so sure of their capabilities?) There is some doubt whether the study will provide useful guidelines for LDCs on how

to respond to NTBs both because footwear maybe too special a case and because some of the responses maybe illegal in nature. The output and dissemination also seem to be geared disproportionally to an outside academic and research audience. It would be far more desirable to aim a greater proportion of the output towards the Bank Staff and LDC policy makers who after all are the ones who will be concerned with the practical issues that the proposal claims to address.

2. In light of these comments our recommendation is that the proposal be rejected in its current form. As the study of the political economy of NTBs on specific export products is important, an alternative that REPAC could consider would be to ask the researchers to submit a revised proposal that would:

(i) study some other product than footwear or enlarge the scope of the study to include some other products;

(ii) develop a more adequate framework for handling some of the methodological problems highlighted by the reviewers especially the treatment of the supply side more explicitly;

(iii) spell out the data needs and sources more clearly;

(iv) provide a more modest budget to more closely fit the proposal needs; and

(v) outline a program for the explicit dissemination of the output in a form more useful to Bank staff and LDC policy makers.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE July 25, 1986

TO Mr. Deepak Lal, Research Administrator, ERS

FROM

EXTENSION

SUBJECT Review of "The Footwear Industry in Developing Countries..." by de Melo et. al.

1. I have read the above proposal on footwear. The subject - the existence and effects of NTB's imposed on manufactured products exported from developing countries - is certainly an interesting and important one, and one that has been the object of a not inconsiderable amount of previous analysis. Yet the approach to be taken and the product to be studied represents new ground which promise to provide more robust evidence to support the abolution of NTB's.

2. In general I support the proposal. The authors have a reputation for thoroughness and are eminently capable of completing the work that they propose. The specific subject - NTB's on Footwear - is of great interest to many of our client countries. The authors are correct in noting the usefulness of the study in terms of expanding the case against restrictions by more broadly estimating their costs; providing a basis for advice by the Bank to its client; and (of lesser importance to the Bank) resolving some methodological problems associated with welfare estimation. However, there are a few qualifications and cautions that I would like to make.

3. From my knowledge of the industry, the premise of the study that footwear production has moved from "North to South", i.e. from industrial to developing countries, is somewhat gross. The movement in production has been from industrial countries to NIC's. Major exporters are South Korea, Hong Kong, Taiwan and Brazil (also Spain and Portugal). An interesting question is why production has centered on these countries and given the reasoning of the product-cycle hypothesis, will it soon relocate in developing countries such as Thailand and Indonesia? What are the forces (constraints) that will cause (inhibit) such a development?

4. Like most products, the footwear industry can be segmented into several parts where the substitution between each part, both in production and consumption, is considerably less than unity. Not only is there the leather/non-leather division (important because of differential trade barriers) but within leather footwear, the market and production process can be divided according to various price/quality categories. As was noted at a recent U.S. ITC hearing on footwear, there was no one in the room wearing "sneakers". They are not a substitute in consumption for dress shoes. Such divisions are important but complicate the analysis. The authors should be aware of this aspect and take account of it in their analysis.

5. Trade in shoe parts is (was) important as a way of circumventing trade barriers. The extent and effects of this trade must also be taken into account in the analysis.

6. The usual phenomenon of quality upgrading observed under quotas needs to be examined. In footwear quality upgrading may be possible only to a limited extent because of short marketing schedules and small production runs involved in the so called "higher fashion" (womens) shoes where markets are volatile and fashions are fickle.

7. One aspect not mentioned in the study is the switching of the location of production from quota-bound countries to quota-free countries. Just as Asian garment producers are switching production from plants located in Asia to plants located in the Caribbean, so footwear producers are switching production facilities from quota-bound countries such as South Korea and Hong Kong to quota-free countries in Asia. Is this an effective strategy? Does it cause a proliferation of NTB's? Is it merely buying one or two years of time? What is the effect of this phenomenon on costs, competitiveness, development of the industry, etc.? Thus rather than protection tending to encourage new suppliers, as hypothesised in the proposal, I think the authors will find that protection tends to encourage existing suppliers to relocate.

8. In terms of the methodology, it appears to me that the authors may have underestimated the difficulty of modelling a rather complex and segmented industry. For results to be meaningful it will be necessary to consider these aspects. This is not to say that the methodology is inadequate but rather that careful attention will need to be paid to the aspects mentioned in paras. 3-7.

9. In summary I think this proposal deserves the support of the RSB. It is well thought out and it promises to deliver a number of interesting and important insights on NTB-formation and NTB-counter measures. Further, the authors are fully capable of delivering that output. The budget does not appear to be excessive for an undertaking of this magnitude.

July 14, 1986

Ms. Phi Ahn Plesch
VDERS, S Building 9th Floor
World Bank
1818 H Street, N.W.
Washington, D. C. 20433

Dear Phi Ahn:

I have read the research proposal "The Footwear Industry...International Trade by Jaime de Melo.

The need for a thorough empirical study of the political economy of NTB's on specific export products of developing countries is urgent. The footwear industry is in many ways an ideal one to study, given its relatively homogeneous product and that the history of NTB's on it has an instance of the removal of NTB by one major importer (US) and that the NTB's have been imposed on some and not on other importers. Thus in principle the proposal ought to be supported. But I have some serious problems with it as it stands.

First, it is not clear to me whether the part of the study that "will provide information for government officials and firms less experienced in dealing with developed country import regulating mechanisms on how successful exporters have dealt with them" (19) is really a function of research. Since some of the ways of "dealing" with an import regulation such as country specific quotas (e.g. textiles and apparel) may be evasion of the restrictions through not quite legal means, it is hard to imagine that exporters will truthfully reveal them to the Bank researchers. It is even harder to imagine the Bank passing them on to developing countries, even if they did!

Second, given that (a) there are several "quality" gradations, (b) trading-up as well as trade-diversion in response to restrictions is one option, (c) the importers in principle should include at least USA, Canada, EEC, Japan and Australia and perhaps the rest of the world) and (d) suppliers include Brazil,

Korea, Taiwan, (how about Mexico?), in principle one has to model and analyse the entire market. Although the proposal talks about trading-up and trade-diversion, it is not very clear how exactly this will be done. It is stated that in the case of restricted and unrestricted suppliers "we will estimate the effects of NTB's on the extent and direction of trade using export allocation, trade allocation and import supply functions" and that "it is hoped that interviews with producers and traders will elicit information on trading up, and it is possible that these will be amenable to formal analysis. (P. 13). It is not very clear to me how this will be done, in particular how these considerations will enter the econometric analysis.

Third, it is claimed that on the demand side "it is proposed to supplement the relatively informal methods found in the literature with the estimation of rigorous demand systems" (p. 13). I did not find the discussion of the estimation of demand systems in the Econometric Appendix of the Winters and de Melo (1986) paper particularly helpful. As they point out in page 30 of their paper, estimation takes place with aggregate data and not with survey data on household expenditure. Even though for each consumer and each atomistic supplier prices are exogenous, in a system consisting of an aggregate demand, aggregate supply (from domestic and foreign suppliers) and market clearance, all prices are endogenous. The authors write as if only the price of the restricted commodity could be endogenous under the market clearance framework. Further, the restrictions apply to imports from a named set of countries. How on earth such a restriction could be translated into a physical ration to each consumer so that the Neary-Roberts type of analysis becomes relevant is not obvious. It is not at all clear how the endogenous response of exporters in terms of trading up or trade diversion will enter this analysis.

Fourth, although the authors thoroughly review the studies on the footwear industry, they seem to be unaware of two (one on NTB's in general and the other on footwear) relevant ones. The first is William Cline's book (1984) on Exports of Manufactures from Developing Countries (Brookings). I am not entirely happy with Bill's methodology. Still, he also is concerned with quantifying the political economy of NTB's. He does this by estimating a logit model of the probability of NTB being imposed with industry cross section data for several countries. It seems to me that given that the political system (in particular the

influence of lobbies) varies from country, a cross section of industries for each country in which some received NTB protection and others did not is more appropriate to study the political economy issues than a single industry study. The second is a paper by Bee Yan Aw and Mark Roberts of Pennsylvania State University entitled "Price and Quality Level Comparisons for U.S. Footwear Imports: An Application of Multilateral Index Numbers". It was presented at an NBER Conference in Cambridge, Mass. last April. This is a useful study from the point of view of trading-up. Also there are a number of studies of VER's in the case of automobiles using a framework of strategic behaviour. These may be relevant.

Finally some specific queries. On page 9 of the proposal it is stated that "by a divide and rule strategy whereby import quotas are allocated to procuders, governments in developed countries may have softened protectionist lobbies". Presumably the authors have in mind a specific factors model in which the interests of capital owners and workers in an industry do not conflict in asking for protection. But even then, unless the producers share the quota rents with workers, the latter may not cooperate. In page 17 of the Winters-deMelo paper it is argued that when markets are linked in supply total demand defines a single price or marginal revenue. This is not true in general if there are different market specific costs such as transportation. For example consider a monopolist supplying different markets from a single plant. Then in each market the marginal revenue will equal his marginal cost of production plus the market specific unit delivery cost. Unless the latter is the same across all markets, the marginal revenue will not be the same. Thus to identify differences in marginal revenue with market segmentation is inappropriate.

I hope the above is useful.

COMMENTS ON PROPOSED RESEARCH:

"The Footwear Industry in Developing Countries and How it Adjusted to Non-Tariff Barriers to International Trade"

The senior researchers proposing this study have good records of doing solid, appropriate research, and the proposal is well written. The time and money proposed seem a lot for such a relatively simple case, but may be consistent with making such a thorough study of it.

The footwear non-tariff barriers of 1977-81 have been much discussed among economists and are already reflected here and there in the literature. There were almost no effective barriers in these years in the European Community, though it did have footwear under "surveillance", nor in other industrial countries, so what is being studied are measures (OMAs) by the United States. These took a peculiar form that would never be repeated in any developed country, since the restrictions were limited to non-rubber footwear, but were imposed on East Asian economies specializing mainly in sneakers and sports shoes. These could easily be remodeled to qualify as rubber footwear. A large part of the response took the form of using more plastic or whatever on the uppers and swamping the U.S. with "rubber" footwear. Thus the quotas were ineffective and were dropped largely out of concern for equity between U.S. makers of different kinds of footwear. Industrial countries learned that NTBs in footwear would have to apply to all footwear. The proposal is not forthcoming on this history. Questions could be raised of whether the case is too simple and atypical to serve as a reliable guide to the issues to be researched, such as, what are the characteristics of successful negotiating strategies by

developing countries, both at the government and producer levels, what are the welfare costs to producers in the exporting countries, and what causes quota schemes to disappear.

The proposal and supporting documents are right in identifying these and related issues as not yet having received the study they deserve. By contrast, costs for consumers and effects on industries in the country imposing the quota would be an example of a much-researched subject. Just what triggers protection has also been studied quite a lot.

There is some question whether such a study in the World Bank would benefit developing member countries with tactical and strategic suggestions that could be applied to advantage in new and inevitably different situations. Would they be relevant at all in relation to the Multi Fiber Arrangement, or steel? For that matter, would industrial country protectionists make use of the information in unwelcome ways, for example, to show that the footwear NTBs did not restrain the exporting countries or protect the industry so that more effective NTBs are needed?

Subject to qualms on these points the research design looks comprehensive and reasonable, although some of the econometrics may be unnecessary.

Referee Report:

"THE FOOTWEAR INDUSTRY IN DEVELOPING COUNTRIES..."

Summary

The subject of this proposal is extemely important. During the past few years the imposition of NTBs by industrialized countries has become increasingly common, hurting the NIC's ability to increase their exports, and in some cases even to pay their foreign debt. An increase in our understanding of the consequences of the NTBs on the LDCs will be most welcome. A case study seems to be a very natural way to pursue this type of increased knowledge. In general terms, then, I like this proposal. At a specific level, however, I have a number of very serious doubts that range from the approach taken, to the methodology, to the cost effectiveness of this project. I spell my concerns in more detail below. Given these problems, however, I cannot recommend the proposal as it stands. My suggestion is to turn it down as is, and ask the sponsors to resubmit a much trimmed version.

1. The Approach

In many ways this is a typical proposal emanating from the research group at the World Bank. The sponsors already "know" the conclusions they want to find (page ii), already "know" that the material will be sufficient for a book, and have already titled the "scientific papers" they will publish. Most scientific work, however, follows a different approach. The scientists (including economists) ask a question, and then embark on a risky scientific inquiry that may or may not lead to a book, may or may not lead to "several" articles, and, more important, whose

results may or may not correspond to his/her priors. Serious research is a risky business; it sometimes even leads to dead ends.

2. Questions and Methodology

By and large, I agree with the three main questions raised in this proposal (page 10). Question (1) is interesting on its own. Here, I recommend that the authors pay particular attention to institutional issues. The character of the more important institutions in the countries where the footwear industry have been reallocated will help understand some interesting aspects of the dynamics of shifting comparative advantages.

Although question (2) is important, the method proposed (interviews) is terrible. The use of interviews and questionnaires constitutes the text-book case of selectivity bias. Naturally, those firms that did not make the right moves following the imposition of the NTBs are not around to answer the questionnaire. Most of the studies cited in the footnotes on pages 7 and 12 are a clear example of the extremely limited use of this approach. If the sponsors want to answer this question, they will have to use a more imaginative technique; interviews will simply not do. (By the way, the statement that interviews will not be the only method used does not absolve the sponsors.)

Question (3) is also very important, but again I have some doubts on the methodology. Given the researchers involved in the project, it is unclear to me how much emphasis will be placed on CGE-type simulation. I strongly suggest to stay away from that type of exercise. The econometric appendix, on the other hand, offers some interesting and promising features.

An important issue which is mentioned but not pursued in the proposal refers to strategic behavior in industrialized countries and NICs. In a way, the fact that the NTBs are imposed suggests that the exporting countries are not "small countries" in the traditional sense. The economics of trade restrictions in two (or more) countries, many commodities world, is extremely interesting and rich in possibilities. The sponsors may want to pursue this avenue when redesigning their proposal.

A crucial aspect, which is not too clear from the proposal, relates to data. While it is recognized that questionnaires and interviews are very poor, the question of data becomes very crucial. As long as the sponsors don't provide more details, the approval of the project should be postponed.

Personnel

With the exception of Bark, the personnel proposed seems very adequate. De Melo is a solid pro whose contributions have been quite interesting. Although I don't particularly like his early excessive emphasis on CGE, De Melo lately has shown to be very perceptive. Hamilton has done interesting work on VERs and other NTBs. Although Winters' CV is rather thin, some of his work shows some promise. By and large these three researchers should be able to generate interesting work on the subject. They should first, however, develop a more adequate framework.

Cost Effectiveness

It is here where I have the most serious reservations about this proposal. Although the World Bank is not a profit maximizer institution,

one would hope--and so do the taxpayers of the world--that it is a cost minimizer institution. The funds required for this project are, on all accounts, excessive. Having reviewed numerous NSF proposals--many of them more ambitious than the one under review--I can state that the amount proposed is almost scandalous.

It seems to this reviewer that the first thing to do when budgeting any World Bank project is to ask what is the minimum fee at which a certain "product" could be delivered. The key issue here refers to whether a particular consultant is likely to do some work on the project's subject independently of being linked as a consultant. This immediately introduces a distinction between different types of consultant jobs. Different tasks will have different reservation wages. One extreme is given by mission work. This type of consultancy almost every time crowds out the consultant's time. The other extreme is to ask people to deliver an already written paper to a Bank audience. It is important to be able to discriminate between these cases; significant amounts of money could be saved.

In the current case, the amount requested is excessive from every possible point of view. As a comparison, think of an NSF decision. It is this reviewer's judgment that the NSF could agree to "fund" a revised version of this project. Of course, in NSF terms to "fund" a project means to provide each researcher with up to 2/9 of his/her yearly salary.

Mr de Vries

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

OCT 28 1986

DATE: October 23, 1986

TO: Mrs. Anne Krueger, VPERS

FROM: Mr. Shahid H. Husain, OPSVP

EXTENSION: 7-2283

SUBJECT: Recent REPAC Decisions and Procedures

1. I have been made aware of recent REPAC policy statements communicated to OPS Departments that raise issues both of the substance of the decisions and of the procedures followed by the committee.

2. Newly announced policies that I want to query are, first, not to fund research preparation requested by ERS, OPS and EIS Departments and, second, not to support primary data collection from the Research Support Budget. The former was announced in memoranda from Ms. Plesch to AGRDR (dated October 2, 1986) and to EDTDR (dated October 6, 1986); the latter in an earlier memorandum to EDTDR (from Ms. Mataac, February 18, 1986) and, before then, in a letter from Mr. Lal to Mr. John North (November 1, 1985). The first of these recent policy changes seems to me to undermine good research procedures; the initial stage of design and exploration is often the most crucial to the success of the enterprise. The second, unless heavily qualified, seems particularly inappropriate to research in some developing countries, particularly in Africa and other countries where the quality of existing data base is generally poor.

3. Each of these two instances of policy change raises furthermore a worrying question of procedure. The decision not to fund research preparation requests was first learned in memoranda to AGRDR and EDTDR in response to a request. Neither the proposers nor others in OPS had been made aware of the change of policy when it occurred. The same is true of the other change to which I have referred: REPAC policy of some importance was not stated openly; rather it was communicated in an evaluation of a particular research request (673-96) or in correspondence on one particular PHN request. Settled policy should obviously be made known generally, and should be known by those who develop research proposals before they start. The procedure revealed in these instances seems to me both unfair and inefficient.

cc: Messrs. P. Hasan and A. Walters OPSVP
REPAC Members; OPS, ERS, EIS Department Directors

File

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

OCT 20 1986

DATE October 17, 1986

TO Mr. Jean Baneth, Director, EPD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "Trade Policies and Productivity Improvements"

1. Thank you for your memorandum of October 9 in response to REPAC's earlier decisions on the above proposal.

2. The project's identification code and financial authorization are now issued as follows:

i)	Identification Code	674-13
ii)	FY87 Authorization	$30,000
iii)	Total Authorization	$30,000

Please use the identification code in all financial documents and other correspondence related to the project.

3. Since the project is scheduled for completion on April 30, 1987, according to REPAC's rules, it will be closed on October 30, 1987. The sponsor will be required to submit a completion report on the project on or before that closing date.

PAP/ea

cc and cleared with: Mr. D. Lal

cc: Messrs./Mmes. E. Grilli, F. Yagci, Y. Calleja (EPD)
S. Panickaveetil, M. Tonson (PBD)
K. Hannemann, M. Herndon (ACT)
R. Pearson (SVPM1)
B. Ross-Larson (CON)
S. Aiyar, V. Mataac, F. Jessup (VPERS)
A. McAlister (BRDC)
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

OCT 20 1986

DATE October 17, 1986

TO Mr. Alan Walters, OPSVP

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Project 673-62: The Effects of Fiscal Deficits in Developing Countries, Phase III

1. Following your recent submission of the final report on research project 673-62, Phase I to The World Bank Economic Review, and your explicit agreement on June 6, 1986 that upon completion of Phase II you will submit an article suitable for publication in the WBER or The World Bank Research Observer, the conditions attached by REPAC to the release of funds for Phase II can now be considered as fulfilled.

2. Consequently the budget of your project 673-62 has been revised to reflect an additional authorization of $25,000 for Phase II.

	Authorization (673-62)	
	Previously	Now
FY86 Authorization	$47,800	$47,800
FY87 Authorization	--	$25,000
Total Authorization	$47,800	$72,800

3. Please note that since the project is scheduled to be completed by June 30, 1987, according to REPAC's rules, it will be closed on December 30, 1987. You will be required to submit a completion report on the project on or before that closing date.

PAP/ea

cc and cleared with: Mr. D. Lal

cc: Messrs/Mmes. P. van Wingerden, OPSVP
S. Panickaveetil, M. Tonson, PBD
K. Hannemann, M. Herndon, ACT
R. Pearson, SVPM1
B. Ross-Larson, CON
S. Aiyar, V. Mataac, F. Jessup, VPERS
A. McAlister, BRDC
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE October 14, 1986

OCT 14 1986

TO Mr. G. Edward Schuh, Director, AGR

FROM Phi Anh Plesch, Secretary, REPAC

EXTENSION 33484

SUBJECT Research Proposal: "Uncertainty, Macroeconomics and Agricultural Price Policies: An Application to Brazil"

1. This proposal, sponsored by Mr. A. Braverman from your department, had been reviewed by three referees (their reports are attached). It was then evaluated by a REPAC subcommittee whose views and recommendations are summarized below.

2. The proposal has three main components:

i) An application of the Newbery-Stiglitz methodology to an evaluation of price stabilization proposals in Brazil.

ii) An integration of the Newbery-Stiglitz and Braverman-Hammer methodologies to evaluate Brazilian agricultural pricing policies taking into account both uncertainty and multi-market effects.

iii) An extension of this integrated methodology to analyze the inflationary effects of agricultural price reform.

3. The subcommittee viewed the referees' reports as generally supportive of the first two components of the proposed research but unanimously critical of the third component. Members agreed with this assessment. It was pointed out that presently there was no real tool for analyzing the effects of agricultural price policies under both conditions of uncertainty and in a multi-market context. Thus the part of the proposal which will attempt to develop such a tool, namely the first two components, would be regarded as highly relevant, of great interest and sufficiently promising to warrant support. The main concern was whether the tool will easily be made operational and whether it can be used not only in the Brazilian context but in the context of other countries as well. To address these concerns, REPAC has made its support and funding of these two components conditional on the sponsors' assurance that they will develop a user-friendly computer program to serve as an operational tool. REPAC estimated the cost of the work on these two components at $70,000.

4. As for the third component dealing with macroeconomic issues,

both reviewers and subcommittee members did not think it as promising. As the sponsors rightly wanted to avoid large scale modeling because it would be too ambitious and difficult, they proposed to narrowly focus their macroeconomic analysis on the consequences for inflation and budget deficit of agricultural price policies. But it was pointed out that without a well formulated macroeconomic framework, it would be very difficult if not impossible to identify the contribution to these macroeconomic events of just agricultural price policies especially in the context of Brazil where government interventions have been pervasive in all sectors. The subcommittee therefore recommended that the sponsors drop this component.

5. In summary, REPAC's recommendations were:

i) to only fund the first two components of the proposal, with the condition that assurance be given that a user-friendly program will be developed to become an operational tool for economists;

ii) to authorize $70,000 for the project, noting that REPAC as a rule does not fund seminars and conferences which are included in the request.

These recommendations have been approved by the Vice President, ERS.

6. Upon notification of acceptance by you and the sponsors of REPAC's decision, the identification code and financial authorization will be issued for the project.

PAP/ea

Attachments

cc and cleared with: Mr. D. Lal

cc: Messrs. A. Braverman, T. Bertrand, G. J. M. le Moigne, AGR
REPAC Members

REVIEW OF THE RESEARCH PROPOSAL "UNCETAINTY, MACROECONOMICS AND AGRICULTURAL PRICE POLICIES: AN APPLICATION TO BRAZIL"

by A.Braverman and
S.M.Ravi Kanbur

This reserach proposal has as objective "to develop and implement a methodology for analysing policy trade offs in agricultural price reform, emphasizing the role of uncertainty and macroeconomics".

It seems that the policy to be considered is "pricing policies for agriculture". Uncertainty will be introduced through "price instability in selected agricultural markets". The macroeconomic impacts of agricultural policies will be considered through "cost push inflation process and the budget deficit induced inflation."

Before commenting on the proposed methodology we should question what the authors understand by pricing policies in agriculture. They explicitly refer to minimum price policy and subsidized credit which, in Brazil, were related until 1980. They also mention the exchange rate policy but, from what we could understand, it will not be a metter of concern.

The existing studies on nominal and effective protection to agricultural products in Brazil, do identify the exchange rate overvaluation as the most important ellement of distortion. Also, quantitative restrictions are quite important for products such as coffee, sugar cane, cocoa, soybeans and wheat. Thus, the authors should be concern with all governmental intervensions on the products to be object of modelling. Besides, for uncertainty considerations, the ad hoc characteristic of Brazilian agricultural policy is quite important. In fact, for some products, the excess of governmental internvension has been the main source of uncertainty.

We should also notice that inflation is the only macroeconomic aspect considered in this project. Thus, title should refer to inflation to avoid mis interpretation of the purpose of the research. To take inflation into consideration might be a difficult task provided the authors williness in avoiding large scale modelling. As they might know, cost push is irrelevant as compared to the deficit induced inflation. Therefore introducing inflation will involve a lot more than the specification of one price index equalion.

One more word on inflation. The budget impact of some agricultural program such as credit, Proalcohol (use of hydrated alcohol as fuel) and others is quite important for inflation considerations. But also are other programs mantained by the government on other sectors. Budget deficit is generated by all these projects together plus the capacity of the government in generating tax revenue. Modelling effort here

might be more difficult than the proposal indicates.

Methological, this project is quite ambicious but the authors are carefull in avoiding large scale modelling. Thus, the success of this project will most depend on the authors ability in maneging the trade off between model analytical power and simplicity.

The authors intent to use Newbery-Stiglitz methodology to evaluate price stabilization proposal. To evaluate the agricultural price policy under uncertainty, this methodology will be integrated to the one developed by Braverman-Hammer. An extension of this integrated methodology will be developed for analysisng the inflationary effects of agricultural price reform.

Except for the price instability, for which a reference on Lopes-Dias work is made, there is no indication on the reformed situation that is, what the authors understand by agricultural price reform.

The empirical implementation of the model to be specified is no object of consideration. This is the case, probably, because a B-H model for Brazil has been developed and the authors envirage no data difficulties. Nonetheless, building variables to represent a series of interventions such as subsidies, taxes, exchange rate overvaluation and quantitative restrictions is quite troblesome, to say the least. Even if the model is designed for simulations, having an idea of the actual level of

the existing distortions is indispensable.

From the points we raised above, it is clear that this project is a risky one. The metholodgicial problems to be solved are difficult and chalanging. There are several unsolved problems in the proposal but one should not be impressed with this fact. This is a research based on a new methodology and therefore has to ve incentivated. We recomend this project to be approved for funding.

From the Bank view point, the question should be on the amount of resources to allocate to this project given its relative risk as compared to other projects subject to Bank funding. It seems to us that given the people involved in the research, then past experience and recent work and, the amount of financial resources the project will require along 18 months, this risk is not umbearable to the Bank.

Braverman, Kanbur et al.

Uncertainty, Macroeconomics and Agricultural Price Policies: An Application to Brazil

The proposed project would investigate the welfare, development and inflationary effects of interventionist policy with respect to agricultural prices. In contrast to most existing analyses which confine their attention to partial equilibrium, assume certainty and abstract from macroeconomic considerations, the proposed project would deal with general equilibrium and derive the welfare and macroeconomic implications in a situation of uncertainty.

Methodologically, the proponents would accomplish the general equilibrium analysis under uncertainty by combining a modified version of the single commodity Newbery-Stiglitz analysis of commodity price stabilization with the Braverman et al general equilibrium analysis of price intervention. The proponents do an excellent job of motivating such an application to Brazil with reference to the policy implications and the obvious complementarity between the two approaches.

I have some qualms about some details of each element of the proposed method. For example, the validity of Taylor series derivations of utility maximizing rules in situations characterized by large functuations in both prices and quantities and where the relevant supply and demand curves may be discontinuous or irregular would seem very questionable. The accuracy and relevance of the Binswanger estimate of the risk aversion measure which the authors seem to want to apply also

seems dubious. We are also given far too little information about how the Braverman et al multi-market analysis will be applied empirically to have confidence in the results. Nevertheless, the proponents are experienced in this work and one can presume that good judgements will be made.

After all the work and resources that the World Bank has put into computable equilibrium analyses in general and models of Brazil in particular, one is somewhat shocked to learn how useless the authors, and apparently also their readers within the Bank, seem to feel that such models would be in this context. This is somewhat surprising in view of the obvious importance of distributional effects in the context of the proposed research and the advantages of CGE models in showing distributional effects in contexts where the changes under investigation are distinctly not infinit-essimally small. I would think that at a bare minimum CGE models could serve as a useful complement to the method proposed.

Despite these doubts, I generally feel that the application of both Newbery-Stiglitz and Braverman et al to the analysis of price stabilization of agricultural commodities in Brazil is sufficiently promising to warrant support. With respect to the macroeconomic analysis, however, all we have is a promise that the authors will survey the relevant literature and then come up with a suitable approach. Since their approach, just like those they criticize, would have to accomplish the difficult to achieve

integration of micro and macro analyses, and since none of the investigators has much experience in this field, I suggest that the macro component of the proposed analysis not be supported.

September 22, 1986

Report on project proposal:

"Uncertainty, Macroeconomics and Agriculture Price Policies: An Application to Brazil" - by Avishay Braveman

The idea to combine the Newberry-Stiglitz methodology of analyzing uncertainty in markets for agriculture products with a multimarket approach is basically a good one. In previous studies, considerations to uncertainty have usually been limited to single market models, whereas studies of the interaction between markets have usually neglected the issue of uncertainty. It would be interesting if the researchers of the proposed project tried to show if, and to what extent, the conclusions of using single market models with uncertainty change when adding considerations to intermarket interaction, and also to show how much traditional intermarket analysis without uncertainty has to be modified if uncertainty is taken into consideration.

This part of the project, dealing with allocation and distribution aspects, I would strongly support. The researchers are also well equipped to pursue it. However, I would suggest that the researchers should then also consider (i) the robustness of the conclusions (for reasonable variations in the specification of the model and the size of the parameters), as well as (ii) the administrative and political feasibility of various types of agricultural price policies. It is, in my judgement, a dubious research strategy to design "optimal" price policies (i.e. tax and subsidy program) which both require information that is far from reliable (the model specification and the quantitative size of the various parameters), and when implemented, require wellinformed, highly competent and benevolent politicians and public administrators.

I am less enthusiastic about the idea of including in the same project also the consequences for inflation and the balance of payments of agriculture price support. It seems to me that the first part of the project - of combining intermarket analysis with uncertainty and applying the analysis to Brazil - is large enough. Another argument against extending the project to cover inflation and balance of payments analysis is that the contributions of farm price policies to these macroeconomic events cannot be clarified without focusing explicitly on a well formulated macroeconomic framework. In other words, if we want to clarify the role of agriculture price policy in the inflation process, the starting point should, in my judgement, be the macro-economic process itself rather than market uncertainty, resource allocation and income distribution problems connected with agriculture price support policy, even if the latter aspects certainly are worth while considering also in an analysis of inflation and the balance of payments. As the marcoeconomic part of the project is now designed, it is in my judgment, impossible to identify the contribution to the inflationary process of just farm price policies.

To summarize, I recommend the allocation and distribution part of the project, - modified to consider explicitly the political and administrative feasibility of various policies (as well as our limited knowledge about the real world). For instance, one way of dealing with the feasibility issue when recommending policies is to avoid proposing highly sophisticated and selective policies, as these are likely to be misused by politicians and public administrators.

file Mr. DeTray
(5-10-051)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE October 9, 1986

TO Ms. Phi Anh Plesch, Secretary, REPAC

OCT 14 1986

FROM Jean Baneth, EPDDR

EXTENSION 33800

SUBJECT Research Proposal: "Trade Policies and Productivity Improvements"

I am glad to know that the research proposal on trade policies and productivity has been approved by REPAC. The comments of referee #1 will be taken into account, as they are very useful.

The project will be a departmental one, under Mr. Yagci's immediate supervision and Mr. Grilli's departmental oversight. Obviously, when Mr. Thomas joins EPDCO, he will have to take a direct and lasting interest in the project.

cc: Messrs. Lal (VPERS) Grilli (EPDDR) Yagci, Obidegwu (EPDCO),
Thomas (LC2CL)
REPAC Members

EGrilli:df

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE October 8, 1986

TO Mr. Gregory K. Ingram, Director, DRD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "The Footwear Industry in Developing Countries and How It Adjusted To Non-Tariff Barriers to International Trade"

1. The above proposal had been reviewed by four referees and subsequently evaluated by a REPAC subcommittee (their reports are attached). REPAC considered it at two successive meetings on September 4 and September 30. Between the two meetings, the subcommittee at the request of REPAC met with the sponsor, Mr. J. de Melo, to discuss the several issues raised by REPAC at the first meeting.

2. These issues were:

i) Choice of the footwear industry as a prototype case study for research on NTBs: Members felt, and some strongly, that the choice was not an appropriate one. The case was too narrow and atypical and did not appear to be central to the debate on NTBs.

ii) The external impact of the research: Like with the earlier proposal, members were deeply worried about the potentially harmful effects of the research findings (e.g. their misuse by protectionists in trying to close "loopholes") and about the nature of advice that can be given to governments and exporters on how to avoid NTBs, etc. There were concerns that the regional economists (in particular for Brazil and Korea), although they had probably been consulted on the proposal, had not been fully aware of the external implications of this research.

iii) Methodology: As noted by the reviewers, the proposed methodologies raised some questions. It was particularly not clear how the issues of trade diversions and product quality changes are to be treated both in the demand and supply models. Transportation and marketing costs seemed to be neglected. There were doubts that the demand side could be modeled satisfactorily without the use of household expenditure data. As for supply side modeling, it was feared that the use of interview methods will not be convincing because of the risks of selectivity bias.

iv) Cost: The budget was deemed excessive. It was also noted that it contained exorbitant fees to be paid to one of the

external consultants.

3. Following the subcommittee's meeting with Mr. de Melo, issue i) has become less of a concern for REPAC. However all members remained seriously worried about the other issues, in particular about the study's external impact and its excessive cost. They also thought that some of the econometric work was not necessary. But arguments were also made that, as some reviewers had noted, the topic was important and deserved some support. After a difficult debate, members have come to agree to recommend their support for a research project in the proposed area provided its cost to REPAC do not exceed $100,000. They believed this amount is sufficient to allow the researchers to do most of the innovative work in the study (that is with less emphasis on the econometric estimates of "rationing"). They would ask the sponsor to redesign the research and to suggest an outline of the proposed book based on this reduced budget. Given the sensitive nature of the research, they would also require that in these special circumstances the sponsors obtain written support from the Chief Economists of the Regions on the choice of countries to be studied (Brazil and Korea).

4. In summary, REPAC has made the following recommendations to the Vice President, ERS, regarding this proposal:

i) to authorize $100,000 from RSB for the project

ii) to attach the following conditions to the release of the funds:

a. the sponsors redesign the research and suggest an outline of the book based on this reduced budget. The outline should be cleared by the REPAC subcommittee (Messrs. K. Dervis and I. J. Singh).
b. the sponsors provide REPAC with a clear written statement from the Chief Economists for LAC and AFA that they do not object to the choice of Brazil and Korea as the countries of study.
c. Professor Carl Hamilton be involved in this research.

5. Mrs. A. O. Krueger has approved all the above recommendations.

PAP/ea

cc and cleared with: Mr. D. Lal

cc: Messrs. J. de Melo, M. Finger, V. Corbo, DRD
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE October 6, 1986

OCT 8 1986

TO Mr. Aklilu Habte, Director, EDTDR

FROM Phi Anh Plesch, Secretary, REPAC

EXTENSION 33484

SUBJECT Research Preparation Proposal: "Effectiveness and Efficiency of Training and Vocational/Technical Education (TVE)"

I am sorry for the long delay in responding to your department's request for funds to help finance the preparation of a research proposal on the above topic. This request, in conjunction with REPAC's policy regarding research preparation funding, has been discussed by this Committee at its September 30 meeting. As REPAC noted that departments in ERS, OPS and EIS normally have in-house research capabilities both in terms of staff and money to enable them to undertake research activities including preparation of research proposals, it has adopted a general policy of not funding any research preparation request emanating from these departments. Research preparation funding from REPAC would be limited to those departments which normally do not have such in-house research capacity, such as the regional departments.

I regret that under that restrictive policy, REPAC cannot fund the present request from EDT. REPAC noted that the request also contains a component which consists of an analysis of existing data sets collected under two ongoing RSB-funded research projects in Cote d'Ivoire and Peru. REPAC views this component as a separate research proposal which should be submitted as such in due form and be subjected to the review and decision processes applicable to new research proposals.

cc and cleared with: Mr. D. Lal

cc: Messrs./Mmes. C. Dougherty, C. Grootaert, D. Jamison, E. Jimenez, J. Middleton, P. Moock, G. Psacharopoulos, A. Schwartz, J. P. Tan, R. Johanson
REPAC Members

file

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE

TO

FROM

EXTENSION

SUBJECT Review of EDT Request for Research Preparation Funds

1. As you requested I have reviewed Mr. Johanson's request for $37,000 of RSB funds to prepare a proposal on "Effectiveness and Efficiency of Training and Vocational/Technical Education (TVE)." The topic would appear of considerable importance to the Bank, but I have several reservations about the application itself which are set out below.

2. This is a very large request for research preparation funds. Sponsors should be asked to separate clearly new research from preparation activities and to indicate an order of magnitude for the amount the final proposal will request.

3. It appears that most if not all of the proposed work is to be done by EDT staff. Why the need, therefore, for large scale additional resources? What do EDT research divisional resources get used for if not to study issues such as returns to vocational education?

4. The role of the two consultants is not clear, especially given the statement that EDT staff will prepare the proposal. Their fees seem excessive given their indirect contributions to proposal preparation.

5. Much of the requested travel is more appropriate for an approved research project than for proposal preparation. The travel budget looks excessive given that the research itself has not yet been approved.

6. Randomized trials may be of questionable applicability in developing countries and for most types of training programs in which payoffs occur over long periods of time. While they may be preferable in principle to other techniques a question remains as to whether and how much Bank research funds should be used for this type of activity. A stronger case needs to be made.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE:

TO:

FROM:

SUBJECT: Research Proposal: "Effectiveness and Efficiency of Training and Vocational/Technical Education (TVE) -- Research Preparation

1. This request is supposed to be a research preparation request. However, part of the funds requested are for analyzing and complementing a study already being undertaken in the Ivory Coast. It seems, although it is not fully clear, that the $11,200 requested for the Ivory Coast are to be used to gather unit cost data on training programs that then can be used in conjunction with earnings differential data. This is a separate request that should be justified on its own. I am not passing a judgment on this component.

2 The true research preparation request entails the new studies to be prepared in Indonesia and Brazil. However, I find $25,800 a little excessive as a research preparation request. How did the sponsors arrive at their travel and consultant figure? In principle, I am in favor of this component provided the sponsors can explain better how they have arrived at their figures.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

file

DATE October 2, 1986

OCT 0 6 1986

TO Mr. G. Edward Schuh, Director, AGR

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Preparation Proposal: "Sub-Saharan Africa Food Production Statistics"

Your department has requested $20,000 from REPAC to finance a pre-study on the above topic with a view to produce a full proposal for research in three countries. I regret that REPAC cannot fund this request as it is now its general policy of not granting research preparation funds to ERS, OPS and EIS departments. The main reason behind this policy is that these departments have in-house research capabilities both in terms of staff and financial resources which enable them to undertake research activities including preparation of research proposals. Research preparation funding from REPAC will be limited to those departments which do not have such in-house research capacity, such as the regional departments.

cc and cleared with: Mr. D. Lal

cc: Messrs. D. Casley, V. Vyas, H. Binswanger, AGR
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE October 2, 1986

TO Mr. Deepak Lal (VPERS)

FROM Dennis de Tray (DRDDR) S10-051 DT

EXTENSION 3-3480

SUBJECT Review of EDT Request for Research Preparation Funds

1. As you requested I have reviewed Mr. Johanson's request for $37,000 of RSB funds to prepare a proposal on "Effectiveness and Efficiency of Training and Vocational/Technical Education (TVE)." The topic would appear of considerable importance to the Bank, but I have several reservations about the application itself which are set out below.

2. This is a very large request for research preparation funds. Sponsors should be asked to separate clearly new research from preparation activities and to indicate an order of magnitude for the amount the final proposal will request.

3. It appears that most if not all of the proposed work is to be done by EDT staff. Why the need, therefore, for large scale additional resources? What do EDT research divisional resources get used for if not to study issues such as returns to vocational education?

4. The role of the two consultants is not clear, especially given the statement that EDT staff will prepare the proposal. Their fees seem excessive given their indirect contributions to proposal preparation.

5. Much of the requested travel is more appropriate for an approved research project than for proposal preparation. The travel budget looks excessive given that the research itself has not yet been approved.

6. Randomized trials may be of questionable applicability in developing countries and for most types of training programs in which payoffs occur over long periods of time. While they may be preferable in principle to other techniques a question remains as to whether and how much Bank research funds should be used for this type of activity. A stronger case needs to be made.

DdT:nr
cc: Mrs. Plesch (VPERS)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

SEP 30 1986

DATE September 29, 1986

TO Mr. Jean Baneth, Director, EPD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "Trade Policies and Productivity Improvements"

The above proposal, sponsored by Mr. F. Yagci from your department, has been reviewed by three referees. As they are generally supportive of the proposed research, REPAC has agreed to fund it but would require the researchers to take particular account of referee #1's comments. Also it would want this project to be a departmental responsibility and under the direct supervision of Mr. E. Grilli himself. Upon receiving your acceptance of these conditions, the identification code and financial authorization will be issued for the project.

File

Enclosures

cc and cleared with: Mr. D. Lal

cc: Messrs. E. Grilli, F. Yagci, EPD
REPAC Members

Review of Proposal on "Trade Policies and Productivity Improvements"

SECTION I: This section attempts to examine the general issue of the relationship between the liberality of the trade regime and the rate of growth of GNP. It does not draw the necessary distinctions between the level of protection and level of real income, which is all that standard theory has been concerned with, and the level of protection and the rate of growth. The author appears touchingly innocent of any knowledge of growth theory or the more recent dynamic models of trade and growth.

No theoretical argument is given for any hypothesis relating level of protection to productivity growth. Nor is there any distinction drawn between productivity and efficiency or competitiveness. Productivity may increase in protected industries due to lavish provision of capital inputs that are underpriced. Measurement of total factor productivity at look value may be misleading.

The study on Turkey that appears to be the inspiration for the present proposal can itself be read negatively as showing that protection does not appear to harm, even if it does not help, the growth of productivity.

SECTION II: In discussing the "political economy" literature the author continues to be astonishingly naive. Thus he appears to think in terms of rent-seeking as being causally induced by protection, which itself appears out of nowhere. The whole point of the endogenous tariff literature, of which he also seems to be unaware, is totally missed here.

The Proposed Empirical Analysis: There are some other variables that would seem to be worth considering in relation to the multiple regression format proposed on page 10. One is the relative extent of direct foreign investment present in the manufacturing sector. Another related variable could be royalty payments and other fees for technology acquisition. Another is the importance of skilled labor within the manufacturing sectors, rather than national educational attainment of the preceding period.

The discussion of the difficulties involved in assessing the liberality of trade regime and of the proper measures of factor productivity growth is acute and well informed. The estimated cost of $30,000 is modest for what could be a narrow but useful empirical study of some very subtle and complex issues.

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Referee #2

DATE: September 23, 1986

TO: Mr. Deepak Lal, Research Administrator, ERS

FROM:

EXTENSION:

SUBJECT: Research Proposal entitled "Trade Policies and Productivity Improvements" by O. Havrylyshyn

1. The project would involve estimating links between TFP growth and indices of liberalism on trade policies from a sample of several countries at different periods of time. The analysis would deal with aggregate industrial sector data, not subsectors. The cost would be $30,000, $25,000 for the senior researchers, $5,000 for research assistance.

2. Provided the analysis is done carefully for a sufficient number of countries over long enough time periods, it is likely to be "worth" $30,000 despite the aggregative approach and the data and econometric problems involved. (These are severe and a small sample carelessly analysed can yield all kinds of crazy results.) I would approve the proposal but require that the research examine at least 10 countries, each over at least 15 years. I would release the money in two tranches, $20,000 at the beginning and $10,000 upon receipt of satisfactory first rough draft of the findings.

3. Finally, I am not sure that EPDCO is, at this time, the most appropriate location for the supervision of this research. I understand that Mr. Yağci, who the proposal says would supervise the project, is about to move to Operations. I would feel more comfortable if the project was supervised by somebody who will continue to be interested in it until completion.

cc:

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Referee #3

DATE September 8, 1986

TO Mr. D. Lal

FROM

EXTENSION

SUBJECT Research Proposal--Trade Policies and Productivity Improvements

As requested, I have reviewed the proposal for RSB funding on Trade Policies and Productivity Improvements. The subject of the proposed research is relevant and topical for the Bank. The Bank has consistently advised its client governments to liberalize their trading regimes to enhance efficiency and growth prospects--with only limited success. Research that could help to make this advice more convincing is prima facie worth supporting.

The proposed research is a logical extension of earlier research in the field, which is reviewed in the proposal. As the proposal acknowledges, there are some unresolved issues with regard to the proposed approach--particularly the index of "liberality" of the trade regime, and well-known problems of measuring TFP in developing countries--but these should be surmountable.

I have little feel for the proposed budget--they seem to be trying to do a lot in a short time!

I recommend that the proposal be supported.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE September 26, 1986

TO REPAC Members

FROM Phi Anh Plesch, VPERS

EXTENSION 33484

SUBJECT REPAC Meeting

There will be a meeting of the REPAC on Tuesday, September 30, at 3:00 pm in Room S-9021.

The agenda is as follows:

i) Research Proposal: "The Footwear Industry in Developing Countries and How It Adjusted to Non-Tariff Barriers to International Trade." You already have the proposal, the referees' and the subcommittee's reports. Additional materials are Attachments 1, 2 and 3 (enclosed).

ii) REPAC's policy regarding research preparation funding.

iii) REPAC's policy regarding funding PC's (see Attachment 4).

Attachment 1: Summary of REPAC's Discussions at September 4 Meeting

Attachment 2: REPAC's decision memorandum on the previous research proposal, dated May 6, 1985

Attachment 3: Mr. de Melo's memorandum to the subcommittee, dated September 15, 1986

Attachment 4: Mr. Kohli's memorandum dated September 15, 1986

Attachment 1

CONFIDENTIAL

September 25, 1986

Summary of REPAC's Discussions of the "Footwear" Proposal at its September 4 Meeting

Background

The present proposal is a revised version of an old one, submitted a year and a half ago and titled "Responses to Non-Tariff Barriers to International Trade: A Proto-Type Case Study of Footwear Exporters." Please refer to Mr. Lal's decision memorandum to Mr. Ingram dated May 6, 1985 (attachment 2) outlining the reasons why that original proposal had not been approved by the REPAC subcommittee, and recommending a different approach or phasing for the proposed study. Note that in its recommendations for resubmission of the proposal, the previous REPAC subcommittee did not express objection to the choice of the footwear industry as a case study. However it did expect that the proposal once revised and resubmitted would "address the specific concerns raised in paragraphs (i) to (iv)" (of the decision memorandum).

REPAC's Discussions of the Current Proposal

In summarizing the subcommittee's views and recommendations, Mr. Singh informed REPAC that neither he nor Mr. Dervis had met with the proposal's sponsors during the review process. Such a meeting had not been possible due to time constraints imposed by personal circumstances.

The following issues were discussed by REPAC:

i) Choice of the Footwear Industry: It was the unanimous opinion of REPAC members that for the purpose of this research on NTBs the choice of this industry as a case study was not an appropriate one. The case was too narrow and atypical. Members were in favor of suggesting the sponsors to choose another industry. However it was pointed out that such a suggestion could not possibly be made lest REPAC be criticized for inconsistency in view of its recommendations made on the earlier proposal.

ii) Political Impact: Members of the original subcommittee said the fundamental concern had been not so much about the choice of the industry as about the political impact of this research (potential misuse of the results by protectionists in developed countries, questionable nature of advice that can be given to governments and exporters on how to avoid NTBs, etc.). They were not convinced that these concerns have been addressed in the current proposal.

iii) Methodology: In the views of the subcommittee, the proposed methodologies raised several concerns. It was particularly not clear how the issues of trade diversions and product quality changes are to be treated both in the demand and supply models. Transportation and marketing costs seemed to be neglected. Modelling the demand side would require also the use of household expenditure data in addition to aggregate data; yet they are unavailable, which makes the effort even more problematic. As for supply side modelling, it was feared that the use of interview methods will not be convincing because of the risks of selectivity bias.

iv) Cost: The budget was deemed excessive.

In light of the above concerns, and given the proposal's past history, it was difficult for REPAC members to decide on the proposal. Some felt that the econometric work could be dropped entirely or partly, that the study should concentrate only on the political economy and institutional aspects. Suggestions were also made to figure out how much REPAC would be willing to finance a book on this topic and leave it up to the sponsors to produce it. The majority of the members however felt uncomfortable at making their judgment, because the sponsors had not been given a chance to answer the above issues as raised by the subcommittee.

It was therefore decided that the subcommittee would meet with the sponsors to discuss these issues and report back to REPAC for its final judgment.

OFFICE MEMORANDUM

Attachment 2

DATE May 6, 1985

TO Mr. Greg Ingram, Director, DRD

FROM Deepak Lal, Chairman, REPAC

EXTENSION 69011

SUBJECT Research Proposal: Responses to Non-Tariff Barriers to International Trade: A Proto-type Case Study of Footwear Exporters

A REPAC subcommittee met on May 6, 1985 to evaluate the above proposal and to make recommendations to the Vice President, ERS, on its funding. The proposal has been reviewed by two external referees whose comments are attached. Both supported the proposal in general but made contradictory recommendations on the phasing. The subcommittee generally accepted the views of referee #1. Mr. A. Winters was also invited to part of the meeting to answer questions and provide clarification on various issues raised by the proposal.

Subcommittee members whilst noting the importance of the topic expressed considerable uneasiness and reservations about many aspects of the proposal which they felt was not properly formulated:

(i) The purpose of the first phase of the proposed study (for which $98,730 is sought) is to explain the strategies suppliers (both constrained and unconstrained) adopted to cope with import regulations and analyze their effectiveness and costs. To do this the researchers will attempt to identify various ways in which exporters have successfully avoided/circumvented the regulations. Subcommittee members were worried that the publication of specific findings in this respect might be misused by protectionists in developed countries. They might lead to pressures in for example the US Congress to close the "loopholes" identified by the research.

(ii) Members also wondered what kinds of advice Bank economists could practically and effectively provide to governments and to actual and potential exporters on ways to go around the legal restrictions imposed by importing countries. Presumably private exporters already have sufficient incentives to obtain the requisite information and to devise cost effective means of avoiding NTBs.

(iii) Scepticism and reservations were also expressed regarding a) the gathering of firm level data and information and b) the design and phasing of the proposed study. Members doubted that much in the way of confidential information would be released to researchers in their interviews with lawyers, lobbyists, firms, etc., as they saw no particular incentives for these interviewees to be forthcoming on this subject. They also pointed out that past experience in getting firm-level data has shown that it is a very difficult and time-consuming

undertaking, and there is no absolute assurance that the data provided by firms would be reliable. Given this, they doubted that the work program (including a survey of 12-15 firms in three countries) as envisaged by the researchers is feasible within the time frame specified in the proposal, i.e., 9-10 months.

(iv) Despite the researchers' emphasis in phase I in using interviews to understand the institutional framework, the subcommittee was worried that no attempt had been made so far to identify potential informants (in either the USA including Washington) or in the three countries they plan to study. As these interviews were planned to obtain information about the firm level avoidance of NTBs, without some assurance that willing informants had been identified and their initial co-operation had been sought, the venture was highly risky, even if the objections outlined above could be met.

(v) The uncertainty surrounding the availability of data and information that could be collected explains the proposed phasing of the econometric analysis to the second stage of the study. Subcommittee members shared, however, the views of referee #1 that the econometric work (which in large part can be done from published data) should be integrated from the beginning as part of the whole study so as to enhance the effectiveness of the field survey work.

As such, whilst the subcommittee felt that a proper research proposal in this area should be supported by REPAC, it could not approve the proposal that has been presented.

It would recommend a different phasing than that presented; viz., that the sponsors resubmit a smaller proposal not costing more than $20,000 and not lasting more than 4 months to undertake a pilot study in one country (Korea or Brazil) to collect the crucial public and firm-level data and information necessary for part of the econometric analysis that is currently contemplated in Phase II of the study. This pilot study, which should be completed within four months of its authorization, will enable the sponsor to prepare and submit a full proposal which would extend the study to the other countries and would also specify and integrate the econometric work that is contemplated and address the specific concerns raised in paras. (i) to (iv).

Under REPAC's rules, the above subcommittee's recommendations have been sent to the Vice President, ERS, for her information.

cc: Messrs. A. Winter, M. Finger, J. Lowther (DRD)
REPAC Members

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Attachment 3

DATE September 15, 1986

TO K. Dervis, INDDR; I.J. Singh, ASPID; Through J.M. Finger, DRDIE

FROM Jaime de Melo, DRDIE

EXTENSION 33972

SUBJECT Footwear Proposal Review

1. The footwear proposal has now been examined by six reviewers. Reactions to the idea of proposed research on NTBs through a case study of footwear range from important to urgent. The issue now is how to proceed. Our position follows.

2. When the proposal was first submitted to REPAC in 1985 (at which time we proposed a pilot study based on interviews to be followed by econometric work), we were urged (on the suggestion of two reviewers) to resubmit a more complete proposal covering the full range of issues. This is what we have done and what REPAC has to decide on.

3. The researchers will not resubmit. Below are reasons for starting the research now.

Issues and Methodology

4. All reviewers agree with the three main issues we propose to investigate (p. 10 of proposal) some stating their explicit approval. Their concern about relative emphasis on peripheral issues (e.g. relocation to subsidiary firms not affected by NTBs, strategic interaction, etc.) will be addressed as appropriate by the researchers. New issues always show up in the course of research and we intend to address them.

5. On methodology, we have proposed three types of analyses: econometric to detect supply and demand responses to NTBs; simulation (based on econometric estimates) to address counterfactual questions such as how much market share Korea and Taiwan lost to Brazil because of being subject to NTBs while Brazil was not; and case studies to detect supply responses that would elude our econometric work at the 8-digit CCCN-level.

6. Interestingly we have enough reviewers to solve any dilemma about choice of methodology. Each type of analysis has one strong opponent. (With 6 reviewers, this leaves in each case 5 reviewers who do not object to any one methodology.) Since no "fourth" type of analysis is suggested to us, we see no particular reason to discard those we propose.

Personnel

7. All reviewers who commented on the research team have stated that the team is good, solid, etc. and should deliver an interesting product. One reviewer however adds superfluous comments finding that one young researcher is inadequate and that another's C.V. is thin. The fact is that this researcher with a "thin" C.V. has published two books and forty quality papers in respected journals/volumes in ten years. Such comments are beside the point for, were the researchers using the "wrong" analyses, how would they have the solid professional record acknowledged by all reviewers including the critical one?

Cost Effectiveness

8. This is REPACs judgment. All we have to show is our record on managing research. For my part you know the record for the Southern Cone project ($375,000 + 2/3 of my time for 2 1/2 years): Over thirty published papers, some of which included in two book-length monographs. I add that the completion report was submitted to REPAC on the expected completion date.

Final Remarks

9. DRDIE will not devote more resources to project preparation because no reviewer has either stated that the research was not worthwhile or that the research team was not good. Neither has any reviewer offered constructive comments on alternative approaches.

10. The proposed research will not be undertaken with a trimmed down budget.

11. We will be glad that you include this note in REPAC's projects file.

cc: G. Ingram, DRDDR

JdeMelo/jm

OFFICE MEMORANDUM

Attachment 4

Date: September 15, 1986

To: Mr. Deepak Lal, Research Administrator, VPERS

From: Harinder S. Kohli, Director, ITF

Ext.: 32064

Subject: Research Support Computer Equipment

1. Further to our discussions, I have reviewed ERS request for exception to the Bank's policy regarding computing equipment for research projects and have concluded that in certain instances, exceptions might be justified.

2. Where it is determined that reutilization of a specific computer is inappropriate for future use by Bank Staff (in headquarters or field) because of age, compatibility with future requirements, non-standard equipment, purchase and location overseas, etc., an exception may be requested by memorandum to the Director ITF, stating the justification. Decisions will be made by ITF, considering the justifications provided, on a case by case basis and if the request for exception is approved, authority to purchase the equipment at its depreciated value would be granted. For personal computing equipment, the Bank's discount period is six years.

3. In order to facilitate this action and to avoid the appearance of an indiscriminant or arbitrary process, the consulting contract must include a clause authorizing the purchase of computing equipment necessary for the agreed work and stipulating that at the conclusion of the project it must either be returned to the Bank or purchased for the depreciated value.

4. We would review the above procedures in about a year's time to evaluate their effectiveness.

Cleared with & cc Mr. Lynn

cc: Messrs. Paijmans, Cosgrove, Asanuma, Gillette
Mrs. Krueger
Regional Chief Economists, Data Administrators and ITF Managers

JVW/HK:nm
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THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

File

OFFICE MEMORANDUM

SEP 25 1986

DATE September 23, 1986

TO Mr. Deepak Lal, Research Administrator, ERS

FROM Kemal Dervis, Chief, INDSP

EXTENSION 74676

SUBJECT Research Proposal entitled "Trade Policies and Productivity Improvements" by O. Havrylyshyn

1. The project would involve estimating links between TFP growth and indices of liberalism on trade policies from a sample of several countries at different periods of time. The analysis would deal with aggregate industrial sector data, not subsectors. The cost would be $30,000, $25,000 for the senior researchers, $5,000 for research assistance.

2. Provided the analysis is done carefully for a sufficient number of countries over long enough time periods, it is likely to be "worth" $30,000 despite the aggregative approach and the data and econometric problems involved. (These are severe and a small sample carelessly analysed can yield all kinds of crazy results.) I would approve the proposal but require that the research examine at least 10 countries, each over at least 15 years. I would release the money in two tranches, $20,000 at the beginning and $10,000 upon receipt of satisfactory first rough draft of the findings.

3. Finally, I am not sure that EPDCO is, at this time, the most appropriate location for the supervision of this research. I understand that Mr. Yağci, who the proposal says would supervise the project, is about to move to Operations. I would feel more comfortable if the project was supervised by somebody who will continue to be interested in it until completion.

cc: Mrs. Plesch
REPAC Members

KDervis:fma

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE August 5, 1986

AUG 07 1986

TO Mr. Vinod Dubey, Director, CPD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "Uniformity versus Discrimination in Value-Added Taxes and Tariffs"

1. As you have accepted REPAC's funding authorization for the above proposal, I hereby issue the identification code and financial authorization for the project as follows:

(i)	Identification Code	674-11
(ii)	FY87 Authorization	$14,000
(iii)	Total Authorization	$14,000

Please use the identification code in all financial documents and other correspondence on the project including letters of appointment to consultants.

2. Since the project is scheduled to be completed on January 30, 1987, according to the rules, it will be closed by REPAC on July 30, 1987. The sponsor is required to file a completion report on or before the project's closing date.

cc: Messrs./Mmes: M. Selowsky, B. Kavalsky, B. Eltezam, CPD
S. Panickaveetil, M. Tonson, PBD
W. Casson, K. Hannemann, M. Herndon, ACT
B. Ross-Larson, CON
S. Aiyar, F. Jessup, V. Mataac, VPERS
P. Mitchell, BRDC
R. Pearson, SVPM1
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE August 1, 1986

AUG 07 1986

TO Mr. Gregory K. Ingram, Director, DRD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "Links between Capital Inflows, National Saving, Domestic Investment and Growth"

1. The above proposal has been reviewed by **two referees whose reports** are attached. Based on these reports which are overall favorable, REPAC is willing to fund the proposal but would like the sponsors to kindly take the referees' comments into account in the conduct of their research. It however thinks that the proposed budget should be reduced by $9,200 for the following reasons:

   i) Reasonable travel expenses in REPAC's calculation would amount to $8,800, and not to $13,500 as indicated in the proposal.

   ii) As it is assumed that most of the computing can and will be done on PC's, REPAC does not see the need for the inclusion of computing costs.

2. The amount REPAC is willing to authorize for the project is therefore $30,800. If this is acceptable to you and the sponsors, the identification code and financial authorization will be issued for the project.

cc and cleared with: Mr. D. Lal

cc: Messrs. N. V. Haque, M. Khan, DRD
REPAC Members

ZCZC VERP0015 JWS0858
VPERS
REF : TCP FCA

+++RUSH+++

MRS. PHI ANH PLESCH
VPRES S9135
EXT 33484

COMMENT ON HAQUE AND FRY'S PROPOSAL

TITLE: LINKS BETWEEN CAPITAL INFLOWS, NATIONAL SAVING, DOMESTIC INVESTMENT AND GROWTH

I FOUND THE PROPOSAL INTERESTING. IT IS CERTAINLY USEFUL THAT THE WORLD BANK ACCOMPANIES ITS SUGGESTIONS FOR INCREASED CAPITAL ASSISTANCE TO INDEBTED NATIONS CONDITIONAL ON STRUCTURAL POLICY REFORMS WITH SOME MEASUREMENT OF THE OVERALL EFFECTS THAT THESE PACKAGES MAY HAVE ON ECONOMIC PERFORMANCE AT THE COUNTRY LEVEL.

HOWEVER, I THINK THAT THE MODEL PROPOSED BY THE AUTHORS HAS SOME LIMITATIONS. FIRST, THERE IS NO REFERENCE TO INFLATION EXCEPT FOR THE ONE ON PAGE 18 ABOUT THE NEED TO CORRECT THE FISCAL DEFICIT FOR ''THE INFLATION DISTORTION CAUSED BY THE TREATMENT OF NOMINAL INTEREST PAUMENNTS UNDER INFLATIONARY CONDITIONS AND THE EROSION OF PUBLIC SECTOR DOMESTIC DEBT''. SECOND, THE WAY EXPORT GROWTH AFFECTS OVERALL GROWTH IN THE MODEL IS RATHER MECHANICISTIC AND MAY SKIP SOME IMPORTANT ELEMENTS. THIRD, EXCEPT FOR THE FOREIGN SAVING EQUATION, THE LINKS BETWEEN REAL EXCHANGE RATE BEHAVIOR AND ECONOMIC PERFORMANCE ARE ABSENT.

ONE OF THE STRUCTURAL REFORMS IMPLICIT IN BAKER-TYPE PROPOSALS HAS TO DO WITH THE REDUCTION IN FISCAL DEFICITS. IN MANY LDC'S THIS AMOUNTS TO SUBSTITUTING LEGAL TAXES FOR THE INFLATIONARY TAX. IF PRIVATE AGENTS INTERNALIZE THE INFLATIONARY TAX AS ANY OTHER TAX, AN INCREASE IN GOVERNMENT SAVING (A REDUCTION IN THE PUBLIC DEFICIT) WILL NOT BE OFFSET BY AN EQUAL REDUCTION IN PRIVATE SAVING. THE BARRO-RICARDO ARGUMENT IS ONLY APPLICABLE IN THE CASES WHERE FISCAL DEFICITS ARE ENTIRELY FINANCED BY MEANS OF INCREASES IN INTEREST-BEARING PUBLIC DEBT LEADING TO THE EXPECTATION OF FUTURE TAX LIABILITIES. IN MORE GENERAL CASES, HOWEVER, PRIVATE CONSUMPTION DECISIONS WILL DEPEND BOTH ON THE LEVEL AND THE FINANCING OF GOVERNMENT DISAVING. MOREOVER, BY AFFECTING THE LEVEL AND THE STABILITY OF REAL INTEREST RATES, INFLATION IS AN IMPORTANT DETERRENT OF DOMESTIC AND FOREIGN SAVING, INVESTMENT AND GROWTH. THUS, ONE OF THE MAIN BENEFITS OF FISCAL CONDITIONALITY IMPLICIT IN THIS SORT OF PLANS IS NOT CAPTURED BY THE MODEL.

PROMOTING EXPORT GROWTH IN LDC'S WILL REQUIRE CHANGES IN THE PROTECTIVE STRUCTURE SO AS TO PUT THE INCENTIVES OF EXPORTERS AND IMPORT-SUBSTITUTION INDUSTRIES AT AN EQUAL FOOT. THE BENEFITS OF RESOURCE MOBILIZATION PROGRAMS LEADING TO TRADE LIBERALIZATION

THESE, THE REDUCTION IN INCREMENTAL CAPITAL-OUTPUT RATIOS, MIGHT BE MODELLED EXPLICITLY. IN EQUATION (2.5), EXPORT GROWTH IS SHOWN TO AFFECT DIRECTLY THE RATE OF GDP GROWTH THROUGH SOME KIND OF MULTIPLIER MECHANISM. HOWEVER, A LESS DIRECT EFFECT IS THE ONE THAT TAKES PLACE THROUGH THE COEFFICIENT LINKING GROWTH AND INVESTMENT: A BETTER ALLOCATION OF RESOURCES INCREASES THE GAINS IN PRODUCT PER UNIT OF INVESTMENT. THIS EFFECT MAY BE VERY IMPORTANT IN THE LIGHT OF EMPIRICAL EVIDENCE AVAILABLE FOR LDC'S.

THE BEHAVIOR OF THE REAL EXCHANGE RATE SEEMS CRUCIAL TO ASSESS THE EFFECT OF FISCAL AND TRADE REFORMS ON ECONOMIC PERFORMANCE INDICATORS. THE REAL EXCHANGE RATE PROVIDES A LINK BETWEEN POLICY AND PERFORMANCE WHICH PROVES CRUCIAL IN MANY COUNTRIES. ON THE ONE HAND, INSTABILITY AND MISALIGNMENT IN THE RELATIVE PRICE OF TRADABLES WITH RESPECT TO NONTRADABLES EXPLAINS POOR EXPORT PERFORMANCE, LOW RATES OF INVESTMENT AND HIGH INCREMENT AL CAPITAL OUTPUT RATIOS. ON THE OTHER, STABLE MACROECONOMIC POLICIES AND TRADE REFORMS HELP TO AVOID REAL EXCHANGE RATE DISEQUILIBRIUM AND EXCESSIVE VOLATILITY IN RELATIVE PRICES. I WOULD LIKE TO SEE MORE EXPLICIT MODELLING OF THESE LINKS IN THE BASIC MODEL.

TO CONCLUDE, I MUST EXPRESS THAT MY REACTION TO THE PROPOSAL IS FAVORABLE, ALTHOUGH I CONSIDER THAT SOME IMPROVEMENTS CAN BE MADE WITHOUT NECESSARILY COMPLICATING THE STRUCTURE OF THE MODEL TOO MUCH. CARE MUST BE TAKEN TO SPECIFY THE MODEL CONSISTENTLY WHEN IDENTITY CONSTRAINTS ARE INVOLVED. ALSO, EQUILIBRIUM CONDITIONS LIKE EQUATION (2.4) MUST NOT BE PRESENTED AS AN IDENTITY. ON THE WHOLE, MY BASIC SUGGESTIONS ARE:

1) TO MODEL THE REALTIONSHIP BETWEEN GOVERNMENT DEFICITS AND INFLATION.

2) TO INCORPORATE INFLATION AS AN ARGUMENT IN THE EQUATIONS FOR DOMESTIC SAVING, FOREIGN SAVING AND INVESTMENT.

3) TO ADD A RELATIONSHIP SHOWING HOW THE REAL EXCHANGE RATE IS DETERMINED.

4) TO DEFINE THE FACTORS THAT ACCOUNT FOR REAL EXCHANGE RATE MISALIGNMENT WITH RESPECT TO LONG-RUN SUSTAINABLE LEVELS.

5) TO USE VARIABLE COEFFICIENTS TO CAPTURE THE EFFECT OF STRUCTURAL POLICY CHANGES ON CRUCIAL PARAMETERS, E.G., ONE CAN SPECIFY INCREMENTVAL CAPITAL-OUTPUT RATIOS AS A FUNCTION OF EXPORT GROWTH AND OTHER TRADE INDICATORS.

REGARDS,

-09010635

PWIN

Referee Report on "Links between Capital Inflows, National Savings, Domestic Investment and Growth" by Nadeem Ul Haque.

1 This proposal by and large covers two issues, plus a few that are rather peripheral to the central hypotheses put up for testing. First, what are the determinants of foreign savings and what is the impact of foreign savings on private savings? Second, what is the interaction between private and public savings. The peripheral issues concern investment and export and functions. On those, the authors do not propose to add much to the work by Khan and Blejer and Khan and Goldstein that pretty much presents the state of the art for LDCs in this area. The rationale for including this part seems to be that it allows construction of a rudimentary growth model for potential use in an analysis of the Baker proposal.

2 The impact of foreign savings on domestic savings was widely discussed in the development literature until about ten years ago; it disappeared when more sensible approaches to the CA and private savings determination were developed. Clearly, if even a penny is consumed out of foreign aid, domestic savings will decline straight from the accounting identities that link the two. This has no obvious policy implications. Also, theory strongly suggests that one should not expect to find a stable relation between the two, especially not when private capital inflows are included in the foreign savings definition. A wide array of government policy instruments will influence both private savings, and its allocation over foreign asset accummulation and physical capital increases. Aggregate relations, run accross widely different countries, are I think of not much use. Similarly, It is not clear how useful an aggregate growth model, with very little direct policy instruments included, would be, especially since the capital constrained environment ahead of us is so different from the period before 1982 where most of the data are coming from. On the other hand, one might defend this approach as a quick first cut at the growth implications of Baker type proposals; if such exercises are considered useful in the Bank, this is probably as good an attempt as one is likely to get anywhere.

3 The part on the interaction between private and public savings is in my view the most useful part of the project. It is almost impossible to overestimate the importance of this issue, and very little empirical work exists, especially for LDCs. This part deserves I think strong encouragement and easily justifies

the rather modest request of $40,000.-. The authors do not discuss the conceptual and data problems they are likely to encounter at all; I suspect that those will in fact be substantial, so that this part of the project may require more resources than they currently envisage. I therefore recommend that the authors be granted the total amount they request, but with an encouragement to focus more narrowly on the issue of private and public savings interaction.

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

SEP 12 1986

DATE September 12, 1986

TO Mr. V. Rajagopalan, Director, EMP

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Preparation Proposal: "Factors Conducive to Time Creation of Female Employment in EMENA Region Countries"

REPAC has reviewed your department's request for $12,000 to help fund the preparation of a research proposal on the above topic. It has also taken the comments of two referees into account (their reports are attached). Whilst REPAC fully endorses the importance and relevance of the topic, it is not convinced that the approach outlined in the request will make the best use of research preparation funds. It shares the referees' views that more attention and thought should be given in the preparatory phase to research design than to establishing contacts and assembling secondary sources. This implies the need for the services and expertise of a labor economist knowledgeable in the field. REPAC cannot judge the qualifications and experience of the Bank staff/principal investigator mentioned in the proposal. Moreover as a rule REPAC cannot use RSB money to fund the time spent on research by a Bank staff.

As such, REPAC regrets it cannot fund the present request. As it thinks the topic to be important and interesting, it would strongly encourage the sponsors to resubmit the request which takes the above comments into account. The sponsors might want to seek the guidance of DRDLM (Labor Markets Division) staff in reformulating the research preparation proposal and in the identification of a consultant to carry out the proposed work.

Attachments

cc and cleared with: Mr. D. Lal, VPERS

cc: Messrs. N. Lindsay, A. Wheeler, A. Kinawy, EMPTA
REPAC Members

SUBJECT: Research Preparation Proposal on Female Employment in EMENA Countries

1. I have two issues to raise on this proposal. The first concerns the budget and staffing, and the second concerns the methodology.

2. On budget/staffing I am not clear from the proposal who is doing what. Specifically, is there work enough here for both staff (two EMPTA staff members plus a Research Assistant) and a consultant? Project preparation involves a literature search (to be done by the Research Assistant?), discussions with other researchers and institutions (two trips totalling 3 weeks duration) and identification of consultants to do the country case studies. For all of this that budget (p. 9) provides for only 4 weeks of staff/consultant time which is budgeted at $6000. At the same time the project description calls for 5 weeks of staff time and $6000 of consultant time, but the consultant is yet to be identified. What is the role of the consultant? Do we need an expensive ($300 per day) consultant to talk to other researchers; cannot staff do that? Is the consultant to advise on methodology? If so, this should be spelled out and the consultant should be identified. Further, the main project would apparently be run by Bank staff, supported only by the country case study consultants who are to be identified in this preparation phase; no role for general consultants is identified. It seems to me we need to have a clearer understanding of what REPAC money is needed for and how it will be used.

3. On the proposed research methodology it would be unfair to ask the sponsors to have a fully developed approach at this stage, but there is a vagueness in the approach that worries me. They propose to start with national case studies, based presumably in part on sample surveys and interviews. These will be largely descriptive (para. 29) but are to form the basis for an analytical report "which will seek to delineate the process of creation and diversification of female employment, and to isolate the causal factors, their methods of causation, and their impacts." How will this analytical part be approached? There have been many studies of the determinants of female labor force participation in developing countries over the past couple of decades, and many quantitative methods have been used. How do the authors propose to carry out their multi-country cross-section analysis? Some suggestions at this stage would be helpful.

4. Other than the above caveats I am generally supportive of the proposal. The sponsors have done a satisfactory job of establishing the importance of the subject, its relevance to the Bank, and that there are differences in the levels of female employment in Middle Eastern countries that would make a cross country study feasible.

OFFICE MEMORANDUM

DATE September 4, 1986

TO Phi Anh Plesch, VPERS

FROM

EXTENSION

SUBJECT Research Preparation Proposal: Factors Conducive to the Creation of Female Employment in EMENA Region Countries

As you requested, I have gone through this proposal rather rapidly. That the issues surrounding the employment of women in predominantly Moslem societies are both interesting and important hardly needs much argument. Unfortunately, almost half of the present proposal is devoted to providing very general (and usually very obvious) justifications for research in the area and for the potential value of such research for Bank economic work and policy analysis. On the other hand, the proposal offers all too little in the way of explanations of how research objectives are linked to the proposed "methodology."

The products of the proposed research would consist of a literature review, six "primarily descriptive" case studies, and an analytic report isolating "causal factors" in the creation and diversification of female employment along with a series of policy proposals. No details are given regarding scope or type of literature to be reviewed, the character or focus of the "cases" to be studied or the analytic techniques (theoretical, econometric, comparative or historical) to be used. The only activities specified for the preparatory phase are missions in North America and Europe to make "contacts with concerned researchers, research institutions and aid agencies" and a review of relevant literature. The latter may, it is said, be sufficient for the preparation of a "state of the art" paper establishing parameters for the remainder of the research.

With so little to go on and no knowledge of the research qualifications and experience of either the principal supervisor or principal investigator, it is difficult to judge whether the modest funds requested for research preparation would be well spent. I am inclined to believe that the initiators of the proposal would be well advised to devote more attention in the preparatory phase to research design than to establishing contacts and assembling secondary sources. Perhaps the sponsors might be persuaded to seek guidance from the staff of DRDLM or use some of the preparation funds for the consultant services of an outside labor economist knowledgeable in field.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE September 8, 1986

TO Messrs. S. Rajapatirana and H. Cortes, Project Co-Directors, VPERS

FROM Deepak Lal, Secretary, Research Policy Council

EXTENSION 33481

SUBJECT Comparative Study on "Macroeconomic Policies, Crisis and Long-Term Growth" (Ref. No. 673-99)

1. Thank you for your August 26 memorandum indicating acceptance by you and the principal authors of the conditions attached by the Review Board to the approval and full funding of the above comparative study and laid down in my July 16 memorandum to you.

2. Consequently I hereby release the remaining funds for the project (Ref. No. 673-99), by issuing the following financial authorization:

		Authorization ($thousand)	
		Previously	Now
i)	FY86 Authorization	$93.0	$93.0
ii)	FY87 Authorization	-	$850.0
iii)	FY88 Authorization	-	$1557.0
iv)	Total Authorization	$93.0	$2500.0

PAP/ea

cc: Messrs./Mmes. M. Deroy, S. Aiyar, V. Mataac, F. Jessup (VPERS)
S. Panickaveetil, M. Tonson (PBD)
K. Hannemann, M. Herndon (ACT)
B. Ross-Larson (CON)
A. McAlister (BRDC)
REPAC Members (for information)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE September 8, 1986

TO Mr. Gregory K. Ingram, Director, DRD

FROM Phi Anh Plesch, VPERS PAP

EXTENSION 33484

SUBJECT Research Proposal: "Links Between Capital Inflows, National Savings, Domestic Investment and Growth"

1. Thank you for your September 2 memorandum indicating your department's acceptance of the REPAC's decision to fund the above proposal at the reduced budget of $30,800. Please consider this sum as the total amount REPAC has decided to grant to the project, as in accordance with its rules, it will not consider requests for supplementary funding of research work already authorized.

2. The project's identification code and financial authorization are issued as below:

i)	Identification Code	674-12
ii)	FY87 Authorization	$30,800
iii)	Total Authorization	$30,800

Please use the identification code in all financial documents and other correspondence related to the project.

3. Please note that since the project is scheduled to be completed on May 1, 1987, according to REPAC's rules, it will be closed on November 1, 1987. The sponsor will be required to file a completion report on or before the project's closing date.

cc and cleared with: Mr. D. Lal, VPERS

cc: Messrs./Mmes. N. U. Haque, M. Khan, J. Lowther (DRD)
S. Panickaveetil, M. Tonson (PBD)
K. Hannemann, M. Herndon, (ACT)
R. Pearson (SVPM1)
B. Ross-Larson (CON)
S. Aiyar, V. Mataac, F. Jessup (VPERS)
A. McAlister (BRDC)
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE September 5, 1986 SEP 0 8 1986

TO Mr. John Burrows, OED

FROM Oey Astra Meesook, VPERS

EXTENSION 33482

SUBJECT Evaluation of Completed Research Projects

1. At its meeting yesterday, REPAC resolved to complete the present round of evaluation of completed research projects in time for the results to be included in the Report on the World Bank Research Program. This means that the chairmen's overall evaluation reports would have to be available by September 30. The following is a list of projects with OED reviewers for which the reviewers' reports have not yet been received:

RPO Number	Title
672-60	Determinants of Fertility in Rural Bangladesh
672-64	National & State Analysis of Indian Urban Development
672-36	Study on the Protection & Incentive System in Turkey

2. I would appreciate it if you could ask the OED reviewers to complete their evaluation reports by September 19. Please let me know if any of the reviewers has a problem meeting this deadline.

cc: D. de Tray (DRDDR)
J. Linn (AEADR)
K. Dervis (INDDR)
D. Lal (VPERS)
P. Plesch (VPERS)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

D. de Tray

DATE September 2, 1986 SEP 04 1986

TO Mrs. Phi Anh Plesch, VPERS

FROM Gregory K. Ingram, DRDBR

EXTENSION 33786

SUBJECT REPAC Decision on "Links Between Capital Inflows, National Savings, Domestic Investment and Growth

1. Thank you for your memorandum of August 1, 1986 advising me of REPAC's decision to fund the above proposal in the amount of $30,800. This Department accepts the decision on funding. If travel costs or computing costs exceed those suggested by your memo, we reserve the right to come back to you for more funding. At this point we will proceed with the work.

2. The project sponsors will take the referees' comments into account in their conduct of the research, as suggested.

cc: Messrs. N. ul Haque, M. Khan
REPAC members

GKIngram:gm

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE August 26, 1986

SEP 05 1986

TO Mr. Deepak Lal, Secretary, Research Policy Council

FROM S. Rajapatirana and H. Cortes, Project Co-Directors, VPERS

EXTENSION 33776

SUBJECT Comparative Study on "Macroeconomic Policies, Crisis and Long-Term Growth"

This is to inform you that the principal authors and co-directors of the Research Project #RPO 673-99, Comparative Study on Macroeconomic Policies, Crises and Long-Term Growth, have agreed to go ahead with the project on the lines of your memorandum of July 16. Accordingly, we will initiate use of the funds allocated to the project immediately.

cc: Principal Authors
Review Board Members
REPAC MEMBERS (for info)

Attachment

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

AUG 07 1986

DATE August 1, 1986

REPAC - file

TO Mr. Vinod Dubey, Director, CPD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "An Analysis of Export Financing and Export Credit Insurance as Export Promotion Instruments"

1. Based on the recommendations of the referee who has reviewed Mr. Fitzgerald's memorandum of July 11 and the relevant documents, REPAC accepts your proposal that CPD shares half of the cost of the above research. Under that condition, REPAC now approves the proposed research for funding from the RSB, at the authorization level of $17,500.

2. The identification code and financial authorization for the project are issued as below:

i)	Identification Code	674-10
ii)	FY87 Authorization	$17,500
iii)	Total Authorization	$17,500

Please use the identification code in all financial documents and other correspondence on the project including letters of appointment to consultants.

3. Please note that since the project is expected to be completed by March 1, 1987, according to the rules, REPAC will close it on September 1, 1987. The sponsor is required to file a completion report on or before the project's closing date.

cc and cleared with: Mr. D. Lal, VPERS

cc: Messrs./Mmes: B. Fitzgerald, M. Selowsky, B. Kavalsky, B. Eltezam, CPD
S. Panickaveetil, M. Tonson, PBD
W. Casson, K. Hannemann, M. Herndon, ACT
B. Ross-Larson, CON
S. Aiyar, F. Jessup, V. Mataac, VPERS
P. Mitchell, BRDC
R. Pearson, SVPM1
REPAC Members

THE WORLD BANK

OFFICE MEMORANDUM

DATE July 31, 1986

TO Ms. P. A. Plesch

FROM

EXTENSION

SUBJECT Research Proposal: An Analysis of Export Financing and Export Credit Insurance as Export Promotion Instruments

As requested I have reviewed the papers relating to this research proposal -- the initial request for RSB funding, the three referee's reports, your memo rejecting funding, and Mr. Fitzgerald's memo proposing sharing the funding between CPD and the RSB. I recommend that REPAC accept this revised proposal.

The three referees consider -- and I concur - that the proposed work on export financing and insurance is useful and a relevant subject for Bank research. Some issues relating to the sorts of schemes the Bank recommends do not seem to be well understood, and a clear exposition of their effects would be of value. Unfortunately, as the referees note there is some confusion of concept and exposition in the original proposal. Mr. Fitgerald clarifies some of this in his memo, but REPAC may wish to consider asking for a revised proposal reflecting the referee's comments.

Mr. Fitzgerald's revised proposal for shared funding between CPD and the RSB seems fair enough to me and would satisfy the first referees concern. CPD will fund the "desk study" element of the study and the RSB will fund the "research" element. Of course the monies are fungible, but it seems to me that the task of developing the analytical framework for considering export financing and insurance schemes can be considered as applied, policy-oriented research and thus appropriately funded by the RSB.

cc: Mr. D. Lal ✓

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Date: July 11, 1986

To: Mr. D. Lal, Research Administrator

From: Bruce Fitzgerald, CPDTA

Subject: Research Proposal: "An Analysis of Export Financing and Export Credit Insurance as Export Promotion Instruments"

1. REPAC's memo of July 8 conveyed the referees' reports on the proposed research together with REPAC's decision that "this is more suitable as a desk study to be done by CPD and not really research". I would like to request that you review this decision and consider a proposal that CPD fund half the $35,000 cost of the research and that REPAC fund the other half. CPD would fund that portion of the project which comprises a desk study, and REPAC would fund the research component.

2. All three referees read our proposal carefully and thoughtfully and raised useful, legitimate concerns which we will incorporate to clarify and strengthen our work. I am gratified that each saw merit in the proposed research and recognized its importance to the Bank's operations. The first labelled it "very constructive and useful for operational economists"; the second concluded "the project is worth(y) to be financed"; and the third thought "A down-to-earth assessment of the effects of export credit and insurance schemes recommended by the Bank would be of considerable value". These schemes are increasingly prominent in the Bank's operations even though their economics is not well understood. The misunderstanding arises from a gap in the economic literature. All three reviewers agreed that the costs and benefits of such schemes should be clarified.

3. REPAC's negative decision seems to turn on the views of the first referee that "this is exactly the type of work that CPD was established to do" and that we "are not really proposing to undertake a piece of research but are planning to document and justify a position we already hold".

4. The reviewer's first point is correct to the extent that it refers to our proposed Task 4 (review of SAL feasibility studies) and our proposed CPD working paper on guidelines to evaluate such studies and to judge the applicability of these instruments in specific situations. While these will be important to show the power of the research and to ensure that it influences Bank operations, we agree with the referee that this is CPD's work. However, these tasks cannot be undertaken before the research component -- Task 3, the economic analysis to develop a suitable analytic model. The referees acknowledge there is confusion on the economics of these schemes, and articles clarifying the issues would be publishable in any journal of economic research -- particularly the Bank's -- which treats applications to development, trade, finance, or insurance. I believe this aspect of our work is the sort of applied, policy-oriented research you described as a REPAC priority at the May CPD staff meeting.

5. This referee's second point -- that we know the answers and are seeking to justify our position -- seems less well taken. We have advanced a number of hypotheses and pointed to benefits and costs which need to be

related in a systematic analytical framework. All research begins from null hypotheses, and the referee advances his own in his paragraph 3: that the instruments cannot be linked to a change in export performance and that the skill in application of the instruments is crucial to their effectiveness. He may be right, and if he is, there are important implications for Bank operations. However, it cannot be known whether he is right without completing exactly the research we have proposed. A "desk study" is not sufficient.

6. The second referee offers a number of suggestions, all of which are useful, to clarify a study which he judged worth funding, and these will be taken into account.

7. The third referee suggested it would be valuable to analyze export financing and export credit insurance, but recommended against using this as a general assessment of adopting export subsidies to offset tariffs and other distortions. We did not intend to propose the latter study and we regret any confusion. We alluded to those issues because they are the broader context in which these instruments are often defended. We recognize our study could enlighten only limited aspects of this larger debate. On the other hand, there are only a finite number of schemes to encourage exports and compensate for past import substitution. Selection among them must be informed by analysis of each -- alone or in combination -- to provide a firmer footing for Bank policy recommendations than the "convincing circumstantial evidence" which presently guides proponents of this approach.

8. The referee acknowledges on page 1 that the project "seems well conceived," but raises a series of technical points he would like to see clarified in a revised and refocused proposal. These are all legitimate questions, but they are technical and are properly resolved in the research.1/

9. I hope you will review the proposal and referees' reports and agree that the research content represents a worthy expenditure of $17,500 of REPAC's budget. This would pay the consultant's salary for one academic quarter to complete the analysis (Task 3). Subsequent work would be financed by CPD. I would be pleased to provide any further information you may need.

cleared with and cc: Messrs. Dubey, Kavalsky and Selowsky (CPD)

BFitzgerald/jl

1/ Consider an example. The referee believes it is a poor question whether export subsidies subsidize importers, because it "does <u>not</u> follow ... that the country applying the export subsidy is worse-off if it is at the same time levying tariffs on imports". This can be correct under certain circumstances, but is not correct under all. Indonesia, which exports 90% of the world's supply of rattan, subsidizes credit to exporters, and foreign manufacturers capture part of the benefits in lower prices. Indonesian furniture manufacturers pay 5%-10% higher prices for Indonesian rattan than foreign manufacturers. This <u>does</u> make Indonesia worse-off. Now, this could be ameliorated by introducing complexities into the schemes (subsidies to "indirect exporters"), but the schemes become more burdensome and costly than the distortions for which they were meant to compensate. Incidence <u>can</u> matter, and the point of the research (not the proposal) is to apply economic theory to sort out the relevent cases.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

AUG 01 1986

DATE July 31, 1986

TO Mr. Vinod Dubey, Director, CPD

FROM Phi Anh Plesch, PAP Secretary, REPAC

EXTENSION 33484

SUBJECT Research Preparation Proposal: "Export Performance Ex-Ante and Ex-Post"

REPAC has considered your department's request for $9,375 to fund the preparation of a research proposal on the above topic. It has also taken the comments of a referee into consideration (see attachment). Although the topic is seen as interesting, REPAC is not persuaded by the outline submitted in support of the request and has therefore regretfully decided not to fund the request. If CPD wants to put up a fuller proposal, REPAC would be willing to consider it.

Attachment

cc and cleared with: Mr. D. Lal

cc: Messrs. M. Selowsky, B. Kavalsky, CPD
REPAC Members

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE July 29, 1986

TO Phi Anh Plesch, VPERS

FROM

EXTENSION

SUBJECT Comments on Research Preparation Request, "Export Performance Ex-Ante and Ex-Post"

1. The proposed research is to "contrast predictions and statements made about an economy's potential for exports and imports performance as it has actually developed, both as to its size and to its structure."

2. The Research Preparation Request is not clear concerning the signification to be given to "predictions and statements." Indeed, two interpretations can be drawn from the two sets of data suggested in the proposal.

(a) The research will consist of giving a broad description of the changes in the examined national economies, starting from the initial structures of these economies and showing their evolution. This approach does not seem very interesting, especially since there exist a lot of studies (many of them coming from the World Bank itself) covering most, if not all, of the countries mentioned.

(b) The research will use a more "journalistic" approach, starting from "official reports and newspapers stories" and illustrating (on a case by case basis) how initial predictions and/or ex-ante fears appear to have been vain or not. Unfortunately, the proposal does not mention any method which could transform this ad hoc approach to a more rigorous one: that makes this proposal--in its current state--not appealing, at least from my point of view.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

AUG 0 1 1986

DATE July 30, 1986

TO Mr. Vinod Dubey, Director, CPD

FROM Phi Anh Plesch, PAP Secretary, REPAC

EXTENSION 33484

SUBJECT Research Proposal: "Uniformity versus Discrimination in Value-Added Taxes and Tariffs"

Thank you for submitting the above research proposal to REPAC. REPAC accepts the views of the referees (whose reports are attached) that the proposal merits support. But like referee #1 REPAC does not see the need for the research assistant in carrying out the proposed study. However it will be willing to contribute $2,000 towards the cost of that research assistant in case the sponsor considers him to be essential. Thus the total amount REPAC will authorize for the project is $14,000. If that decision is acceptable to you and the sponsor, the identification code and financial authorization will be issued for the project.

cc and cleared with: Mr. D. Lal

cc: Messrs. M. Selowsky, B. Kavalsky, CPD
REPAC Members

Referee #1

Comments on Research Proposal Entitled "Uniformity versus Discrimination in Value Added Taxes and Tariffs"

A Research Proposal

1. The proposal deals with an important issue that is relevant to Bank operations. Bank policy advice and lending conditionality have frequently been influenced by one or the other of the two lines of thought on taxation set out in the paper. We need a good synthesis.

2. Considerable work has already gone into sorting out the cases where uniformity is justified and where the differences in compensated demand or supply elasticities imply non uniformity. Several papers have been done on this question (some written within CPD by Pradeep Mitra). Even though the proposal is sponsored by CPD, there is no recognition of this work. While the proposal is to take a somewhat different tack, it should be evaluated by Bank staff that have been extensively working on this issue (i.e. Pradeep Mitra).

3. The issues to be emphasized in the proposal - the efficiency gains from more complex finely-tuned non-uniform tax systems relative to simpler systems based on uniformity, the 'robustness' of fine tuned non-uniform tax systems to changing economic conditions, and the equity considerations in giving tax authorities leeway to differentiate between citizens based on estimates of compensated demand or supply elasticities -- are important. The first two issues seem tailor made for investigation with CGE models. I would be surprised if these issues have not been investigated in some detail -- by sensitivity analysis on results from these models. I have not followed this literature close enough to know. If this is to be the approach, this should be spelled out explicitly and someone who knows this literature should look at the proposal. If this is not the approach to be taken, some indication of the alternative should be given. The third issue is important, but very straight forward. Harberger probably won't set out the argument as persuasively as Friedman would (or has in discussing closely related issues), but he'll probably come close.

4. I find the scope of the work program a bit surprising. What will a research assistant be doing for four months if not rehashing the work that has already been done (partly within the Bank) or doing the sensitivity analysis on results of CGE models that I suggest has also probably been done. What will the Bank staff economist be doing for three months. I suspect Harberger could do a good job of reviewing this work and writing up a paper on this in a few weeks. Is that what is called for in the proposal?

5. While the proposal is high cost and does not recognize or take advantage of work already done, a paper on this issue would be useful. Subject to the qualifications noted above, I support the proposal. Since the proposed work may provide useful inputs to a paper on the related issue of the appropriateness of compensatory 'second best protection' and the steps in reform of trade policies now underway jointly by AGR, ERS, and CPD and since I suggest that the scope of the effort can be reduced drastically, I suggest the completion date be moved up to the end of September.

Referee #2

MEMORANDUM

TO: [redacted] Committee
Economics and Research
The World Bank

RE: Review of Proposal on "Uniformity versus Discrimination in Value Added Tax"

DATE: July 22, 1986

The research project proposed by Professor Harberger deals directly with the most important issue that has separated the thinking of tax policy practitioners and public finance theorists. The optimal taxation literature has dealt almost exclusively with the resource allocation and consumer welfare aspects of taxation while ignoring the issues affecting the stability of a tax system including its administration and compliance costs.

The focus of this proposal is on the important issue of what is the impact that multiple tax rates have on the stability of a tax system over time. Professor Harberger has had the experience in this field to be able to draw together the issues and the historical record in this regard.

Economists have often ignored the important role that simple rules and precedent avoidance play in maintaining a robust tax system and minimizing the inefficencies created by taxes. These issues were recognized explicitly by the policy makers in Indonesia when they insisted that the new value added tax law state that there could be only one rate of value added tax. If the rate of tax is to be changed, it has to be changed on <u>all</u> goods in the tax base. The purpose of this was to prevent special interest groups to initiate and create a precedent for using the tax system for all sorts of things unrelated to raising revenue.

Some empirical evidence exists, particularly with value added taxes in the EEC, that as the number of tax rates increase the administrative costs of the tax increase exponentially. For example, the simplification of the British VAT system has reduced the administrative costs of the tax from somewhere in the range of about 7% to slightly more than 2% of revenues. One obtains the same impression from the what sketchy evidence there is on the compliance cost of alternative sales tax structures.

It seems to me that even if one were to set aside the effect of differential tax rates on the dynamics of tax policy changes, the mere introduction of administrative and compliance costs into the analysis would push our recommendations for the design of an indirect tax system in the direction of fewer rather than more differential rates of tax.

I strongly support the funding of this research proposal. I know of no other paper or publication in this area that attempts to integrate the tax policy and economic efficiency arguments in developing recommendations on the design of indirect tax systems. I also do not know of anyone who is better suited than Professor Harberger to undertake such a research project.

OFFICE MEMORANDUM

DATE July 23, 1986

CONFIDENTIAL

TO REPAC Members

FROM Phi Anh Plesch, VPERS PAP

EXTENSION 33484

SUBJECT Minutes of June 10, 1986 REPAC Meeting

file

REPAC held a meeting on June 10, 1986. All the members were present, including Messrs. R. Gusten and M. Khan who officially joined REPAC on June 1.

Research Proposal: "Population Growth, Employment and Returns to Labor in Agriculture"

The proposal was introduced by the members of the ad hoc subcommittee. Mr. O'Brien said the proposal was similar to many others in that it involved good researchers, dealt with an important and interesting topic, but raised fundamental concerns. The concern here was whether the research core task -- which was to seek an extension of agricultural sector models -- should be considered a high priority one. The proposal, he noted, contained several elements which were separable, and many of which were extraneous and could be done by the in-house sponsor, Mr. Kislev, during his tenure at the Bank. He said the subcommittee had recommended to pare it down to at most two country case studies to be undertaken in the first phase, after which the sponsors may come back with a request for extension. Mr. Linn added that the extraneous tasks were not elaborated at all in the proposal, so it was difficult to evaluate them; the reason for the lack of elaboration, he felt, was that the DRDLM division had planned to undertake them anyway as part of its work program. He explained that the core component of the proposed research was to develop and extend an intertemporal labor demand model, building up on the agricultural sector model previously developed by Evenson and Binswanger. He said that the reviewers had raised a number of methodological issues and questioned the usefulness of extending the model to some of the countries selected, particularly in view of the work that was already done in them (e.g. India, Thailand). He said that the alternative to not funding the proposal at all was to fund a pilot study to allow Mr. Evenson, a highly qualified expert, a chance to demonstrate that he could improve upon earlier methodology and analysis. Mr. O'Brien also pointed out the subcommittee's concern about the loose arrangements made regarding the management and supervision of the proposed project. He said that Mr. Lluch in a meeting with him and Mr. Linn shared the subcommittee's concern about a policy-oriented study and thus the need for a strong and continuous in-house management. But although Mr. Lluch assured that he

would find a replacement for Mr. Kislev upon the latter's anticipated departure from the Bank, the subcommittee noted that such replacement plans were absent from the proposal. As one member also remarked, it was not even certain that one could expect somebody to take over someone else's research ideas and project.

Many questions were raised by REPAC members. They noted that the specific policy questions relevant for the Bank which the proposed research sought to answer were not clearly identified. They also pointed out that a great deal of work had already been done addressing the same broad topic and issues. Mr. Linn suggested that the proposed research could only be seen in the context of the broader research design of DRDLM, investigating a very important segment of labor markets, i.e. the demand side. This explained the nature of the approach which is positive rather than normative. The Chairman asked what additional policy insights would this research provide at a cost of $258,000, considering past work, in particular by Mr. Binswanger. A member argued that Mr. Evenson proposed a different model and a different approach, and given that the Bank was unlikely able to do this basic type of research, it should take advantage of Mr. Evenson. He however noted that the proposed simulation model, to be used to trace the effects of policies on the demand for labor, did not appear to be based on deep structural parameters and thus could potentially be unstable when dealing with large-scale structural changes. But notwithstanding this concern, he would be willing to take a chance with Mr. Evenson. The Chairman asked whether Mr. Binswanger's research had been applied in operational work. The answer appeared to be "not much," but the same could be said of many other types of research. Members agreed that the only merit of the proposal was the involvement of Mr. Evenson and the possibility to "buy a better mousetrap" from him. And as some members suggested this could be done at low cost by funding a small pilot study. Attractive as that idea might be, the majority of the members was against it, because in the absence of clearly identified issues, hypotheses and policy questions relevant to the Bank, the proposed research appeared too method-driven. And the Chairman pointed out that the implementation of the RPC's new research priorities required Bank research to move away from method- or model-driven research. A parallel was drawn with past modelling exercises such as CGE modelling whose futility has been demonstrated in Bank operational work. A member asked whether the problem was in the "packaging" of the proposal which could possibly be solved by having the sponsors specify the policy issues and hypotheses and the relevant operational departments formally endorsing the issues to be studied as useful to them. But other members did not believe so, as they thought the project was not basically driven by issues and policies but rather by "the model." And on the basis of past experience, they were skeptical about the results from such an approach. Furthermore, from the reviews, it was pointed out that even "the model" proposed for this research appeared to have its own methodological and data limitations which raised doubts about its robustness and potential usefulness. Finally, concern was expressed that the external investigators would be primarily

interested in the model and the research would thus lose whatever policy focus might currently be read into the proposal. In this context members shared the subcommittee's serious worry about the weak in-house management proposed for the project. It was feared that with the departure of Mr. Kislev from the Bank in seven months, there would be no internal investigator and sponsor left, which would leave the project in jeopardy as no credible replacement was suggested in the proposal.

Members therefore unanimously voted to recommend against funding the proposal.

REPAC Policy Regarding Funding Conferences

Mr. Lal explained that in the past several months REPAC had received a large number of requests for funding conferences involving large sums which could impose a heavy burden on the RSB. So, he said, for the latest request for funding a conference on "International Transactions in Services" from DRD, the REPAC subcommittee had decided not to fund the conference cost but only the research component of the proposal (fees for authors of commissioned papers, fees for reviewers, travel expenses to countries of study and editorial fees). He asked that REPAC adopt the same guidelines in future when dealing with conference funding requests, but that exceptions be made for those conferences which are part of the research design or execution of large projects such as the comparative studies. A member of the above-mentioned REPAC subcommittee added that the conference proposed in the DRD request had been deemed redundant for the purpose of producing the intended book, which could as well be achieved by sending the papers out for comment and incorporating these comments in the book. But going beyond the issue of conferences, he also questioned the value added of such an activity as the commissioning of papers which he considered more as a PR exercise than research per se.

A member said he understood the justification for not funding the "stand alone" type of conferences but asked whether this should apply to dissemination conferences which are part of a research activity. The consensus of REPAC members was to review these proposals on a case by case basis, but the signals to be sent out were: i) there should be cost-sharing on the part of the sponsoring departments; and ii) REPAC's contribution would be restricted to the research components of such proposals, thus would not cover any conference costs.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

JUL 18 1986

DATE July 16, 1986

TO Messrs. S. Rajapatirana and H. Cortes, VPERS

FROM Deepak Lal, Secretary, Research Policy Council

EXTENSION 33481

SUBJECT Comparative Study on "Macroeconomic Policies, Crisis, and Long-Term Growth"

1. The members of the Review Board have found that many of their earlier concerns about the project were met by the new Guidelines and Addendum. The Board has recommended that this project be allowed to proceed subject to the four following conditions.

2. First, a written commitment be made that a synthesis volume will be produced by the Principal Authors based on the country studies, and that the three external Principal Authors will have a contractual obligation to this effect.

3. Secondly, assurance be given that the Principal Authors will also have a contractual obligation to supervise the country studies.

4. Thirdly, as the Principal Authors suggested and as a majority of the Board agreed, the "Australian model" with tradeable and non-tradeable goods provides a suitable preliminary analytical framework for the country studies. This framework should be written down and it should form part of the instructions to the country authors, as the starting point of their analysis.

5. Finally it should be noted that the Review Board is charged with the task of both monitoring the progress of the project as well as helping to ensure its success. To strengthen the Board, and to ensure that a quorum will be available to attend future conferences, three additional members be added: Professor J. Donges (Kiel); M. Blejer (IMF); and A. Choksi (CPD, World Bank).

6. Upon receipt of your acceptance of these conditions, the authorization to release the remaining funds for the project will be issued.

PAP/ea

cc: Review Board Members
REPAC Members (for information)

THE WORLD BANK/IN... FINANCE CORPORATION

OFFICE MEMORANDUM

Dennis

JUL 10 1986

DATE July 8, 1986

TO Mr. Gregory K. Ingram, DRD

FROM Deepak Lal, Chairman, REPAC

EXTENSION 33481

SUBJECT Research Proposal: "International Transactions in Services and the Interests of Developing Countries"

1. Thank you for your July 3 memorandum addressed to Mrs. Plesch in response to REPAC's decision on the above research proposal. At its last meeting REPAC adopted new guidelines for funding conferences. They reflect a change in REPAC's policy which is now to only fund conferences which are specifically part of the research design or execution of particular research projects (for instance, multi-country comparative studies). As for other types of conferences, such as the one currently proposed by DRD, REPAC would consider them only on a cost-sharing basis, with REPAC's contribution being restricted to the research expenses and the sponsoring department covering the conference costs. REPAC recognizes that your department's proposal had been prepared in good faith and is sorry that it has been caught in the middle of a policy change. However it is pleased that you and the sponsor have been able to accept the funding decision it had made regarding that proposal.

2. The project's identification code and financial authorization are issued as below:

i)	Identification Code	673-09
ii)	FY87 Authorization	$60,000
iii)	Total Authorization	$60,000

Please use the identification code in all financial documents and other correspondence of the project including letters of appointment to consultants.

3. Since the project is expected to be completed by October 1, 1988, according to REPAC's rules, it will be closed on April 1, 1989. The sponsor will be required to file a completion report on or before the project's closing date.

PAP/ea

cc: Messrs./Mmes. M. Finger, V. Corbo, J. Lowther, DRD
S. Panickaveetil, M. Tonson, PBD
W. Casson, K. Hannemann, M. Herndon, ACT
B. Ross-Larson, CON
S. Aiyar, F. Jessup, V. Mataac, VPERS
P. Mitchell, BRDC
R. Pearson, SVPM1
REPAC Members

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE July 8, 1986

TO Mr. Vinod Dubey, Director, CPD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "An Analysis of Export Financing and Export Credit Insurance as Export Promotion Instruments"

The above proposal was reviewed by three referees whose reports are attached. In light of the referees' comments, it is REPAC's view that this is more suitable as a desk study to be done by CPD and not really research. As such REPAC regretfully cannot fund the proposal.

Attachment

cc and cleared with: Mr. D. Lal

cc: Messrs. B. Fitzgerald, M. Selowsky, B. Kavalsky, CPD
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE July 7, 1986

TO Mr. Vinod Dubey, Director, CPD

FROM Phi Anh Plesch, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "Impact of Public Enterprises on Domestic Savings in Sub-Saharan Africa, Phase I"

1. I am pleased to inform you that REPAC has approved your department's request for $15,000 to fund Phase I of the above proposed research. Attached are the comments of two referees who have expressed support for the proposal.

2. The identification code and financial authorization for the project are issued as follows:

i)	Identification Code	674-07
ii)	FY87 Authorization	$15,000
iii)	Total Authorization	$15,000

3. Please use the identification code in all financial documents and other correspondence on the project, including letters of appointment to consultants.

cc and cleared with: Mr. D. Lal

Attachment

cc: Messrs./Mmes. M. Selowsky, B. Kavalsky, B. Eltezam, CPD
S. Panickaveetil, M. Tonson, PBD
W. Casson, K. Hannemann, M. Herndon, ACT
B. Ross-Larson, CON
S. Aiyar, F. Jessup, V. Mataac, VPERS
P. Mitchell, BRDC
R. Pearson, SVPM1
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE June 23, 1986

TO Mr. Deepak Lal, VPGRS

FROM

EXTENSION

SUBJECT Research Proposal for a Comparative Study of the Impact of Public Enterprises in Domestic Savings in Sub-Saharan Africa

1. I support this proposal for phase I of the above research project. The proposal also has the strong support of the Public Sector Management Division in this Region. In my view, Phase I has some interest in itself, but is primarily of value as a necessary step to phase II. The questions in phase II are highly relevant, but would need to have a much more elaborated proposal on how they are to be analyzed before we could consider funding for phase II.

2. On a minor point, I am unclear why the definition of PE's own savings in Appendix I (p.14) includes current subsidies.

cc: Mrs. Phi Anh Plesh

THE WORLD BANK

OFFICE MEMORANDUM

DATE June 23, 1986

TO Ms. Phi Anh Plesch, VPERS

FROM

EXTENSION

SUBJECT Research Proposal on Public Enterprises in Sub-Saharan Africa

This is basically a data collection exercise, and I believe it has merit. I am not entirely convinced about the rationale for putting together the data on public enterprises, namely that it will allow a study of the impact of public enterprises on aggregate domestic savings in Sub-Saharan Africa, because the proposal is rather vague on this question. However, as that will be an issue only in Phase II, this is not a matter of major concern at this stage.

I am also unclear about the methodology that will be used. I assume that all that's involved is a careful sifting through Bank and Fund documents to put together reasonable (and hopefully consistent) series on public enterprises savings and investment. I don't know if that would take 6 months, but it might. I would suggest getting hold of Fund reports for all the countries under consideration because in most cases they will include in the consolidated public sector accounts information on non-financial public enterprises. This is probably the best source.

In summary, I would recommend funding of this particular phase of the research project.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

JUL 08 1986

DATE July 7, 1986

TO Mr. Basil Kavalsky, Acting Director, CPD

FROM Phi Anh Plesch, Secretary, REPAC

EXTENSION 33484

SUBJECT Research Proposal: "An Analysis of the Macroeconomic Implications of Reductions in Government Spending: Methodology and Application to Mexico"

1. Thank you for your July 2 memorandum indicating your department's acceptance of REPAC's decisions and recommendations on the above proposal. Please note that since the application to Sri Lanka will be dropped from the study, the project's title has been amended accordingly.

2. The project's identification code and financial authorization are issued below:

i)	Identification Code	674-08
ii)	FY87 Authorization	$30,000
iii)	Total Authorization	$30,000

Please use the identification code in all financial documents and other correspondence on the project including letters of appointment to consultants.

3. Since the project is expected to be completed by April 1, 1987, according to REPAC's rules, it will be closed on September 1, 1987. The sponsor will be required to file a completion report on or before the project's closing date.

cc and cleared with: Mr. D. Lal

cc: Messrs./Mmes. A. Feltenstein, V. Dubey (o/r), B. Eltezam, CPD
S. Panickaveetil, M. Tonson, PBD
W. Casson, K. Hannemann, M. Herndon, ACT
B. Ross-Larson, CON
S. Aiyar, F. Jessup, V. Mataac, VPERS
P. Mitchell, BRDC
R. Pearson, SVPM1
REPAC Members

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE July 2, 1986

TO Mrs. Phi Anh Plesch, VPERS

FROM Basil Kavalsky, Acting Director, CPD

EXTENSION 60115

SUBJECT Approval of Research Proposal

We wish to thank you for granting the $30,000 for our project, "An Analysis of the Macroeconomic Implications of Reductions in Government Spending: Methodology and Applications to Mexico and Sri Lanka. We agree with the recommendations of the referees and, in particular, will drop the application to Sri Lanka in order to concentrate on Mexico. As the second referee suggests, we will also focus on the relevant empirical issues.

cc: Messrs.: Dubey o/r
Lal o/r
B. Myers
A. Feltenstein
REPAC Members

AF:pp

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

D. de Tray

DATE July 3, 1986

TO Mrs. Phi Anh Plesch, VPERS

FROM Gregory K. Ingram, DRDDR

EXTENSION 33786

SUBJECT Decision by REPAC on "International Transactions in Services and the Interests of Developing Countries"

1. Thank you for your memorandum of May 27, 1986 outlining REPAC's decision which is to provide $60,000 of the $106,500 requested in this proposal. The rationale for the decision was to fund only the so-called research components of the proposed work and not the conference expenses.

2. There are two dimensions to this decision which surprise and disturb me. First is the distinction made between research expenses and conference expenses. Conferences are an integral part of the dissemination of research results and state-of-the-art papers. Given the concerns about dissemination of research within the Bank, I am surprised that expenditures on conferences are now viewed as low priority uses of REPAC funds. Second is the seemingly retroactive application of REPAC policy. This proposal was prepared in good faith based on REPAC practice and policy at the time of submission. My impression is that the policy decision not to fund conference costs was made after this proposal was submitted, and indeed, may have been made after it was reviewed. I strongly believe that it is in everybody's interest if REPAC applies to proposals only those REPAC policies that exist at the time of proposal submission. Moreover, if REPAC has made a general policy decision about not funding conference expenses, I would like to be advised of it.

3. This Department accepts the funding decision made by REPAC.

cc: REPAC Members
Messrs. V. Corbo, M. Finger, B. Hindley

GKIngram:gm

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE July 2, 1986

TO Mr. G. Edward Schuh, Director, AGR

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "Comparison Between Publicly and Privately-Operated Canals in India"

1. The above proposal, sponsored by Mr. R. Wade from your department, was reviewed in the context of an earlier research preparation grant of $13,900 from REPAC to help the same sponsor prepare a proposal for a "Comparative Research on Organizational Options for Canal Irrigation" (Project no. 673-47P). At our request, the sponsor had submitted a series of papers as evidence on the output of that research preparation study. As you can see from the comments of a referee (attached), it appeared that this output bore little resemblance to what had been proposed to be undertaken in the research preparation request. Of the four main tasks listed in that request, there was no evidence from the output that three had been carried out, namely:

- inventory and typology of canal management organizations in Asia and Africa;
- review of the literature regarding incentives for bureaucrats to perform in irrigation management systems; and
- a field trip to North and West Africa to conduct a preliminary study of the comparative advantages of various methods of water control.

2. As such, REPAC deeply shares the worries expressed by the referee regarding: i) the little respect shown by the sponsor for the terms of reference under which he received the preparation grant; ii) the lack of explanation of the reasons why he significantly deviated from his research program; and iii) the rationale behind the decision to now focus on the comparison of publicly and privately-operated systems as a result of his research conducted under the preparation grant.

3. REPAC therefore has decided not to consider the present research proposal at this time. The proposal may be resubmitted on the condition that the sponsor provide a full account of the research

preparation grant (RPO 673-47P) addressing the three concerns listed above (in paragraph 2). It is also recommended that the new proposal be more elaborated in terms of the specific issues and hypotheses to be investigated and the analytical approach to be used to address them.

cc and cleared with A. Choksi, REPAC, Acting Chairman

cc: Messrs. R. Wade, H. Binswanger, D. B. Argyle, AGR
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 16, 1986

TO:

FROM:

EXTENSION:

SUBJECT: Comparison Between Publicly- and Privately-operated Canal Systems in India
(Application for a Research Grant by Mr. R. Wade)

1. I am more than a bit puzzled by this application and the documentation provided. The applicant, in 1984, received a research preparation grant of $13,900 (additional to the same amount provided by AGR) to carry out the work defined in his note attached to the request dated October 26, 1984. The note listed four components:

- inventory and typology of canal management organizations in Asia and Africa;
- comparative study, on the basis of documents and in-house knowledge, of centralized and decentralized irrigation management systems in East Asia and India;
- review the literature regarding incentives for bureaucrats to perform in irrigation management systems; and
- a preliminary study of the comparative advantages of upstream and downstream control of water, based on a field trip to West and North Africa where the downstream control method is pioneered.

At the end of this exploratory phase, more precise hypotheses would be formulated for the testing of a broader set of data.

2. The research proposal now submitted also has to do with irrigation management but focusses on a new subject: the comparison of publicly and privately-operated systems. What one would like to know is: what happened to the original research preparation proposal? The applicant submits a number of papers which address one of the questions raised but apparently more summarizing his prior knowledge and experience than any new research; there is neither the typology nor the literature review nor any evidence of the West African field trip.

3. I don't want to go into the question as to whether the papers submitted justify the resources granted for preparation. What worries me is that (a) the applicant has shown very little respect for the terms of reference under which he received the grant; (b) he apparently saw no reason to explain why he significantly deviated from his research program and why the field trip never took place (or if it did, why it is not reflected in the output); and (c) how his decision to now focus on the difference between publicly- and privately-operated systems grows out of his research conducted under the preparation grant.

4. In consequence, I recommend not to consider the application for a research grant at this point of time. Instead, REPAC should request a full account of the research preparation grant which would address the questions listed in para. 3 (and any further ones you may wish to add). Unless we do this, there is little likelihood that the output from the research proposal under consideration will bear more resemblance to the original proposal than was the case for this preparation grant. Consideration of the new application would be contingent on an account satisfactory to REPAC.

5. In addition, you may invite the applicant to articulate his new proposal further, in particular to formulate the main hypotheses more precisely. (The one-page methodological note supplied deals only with the survey methodology.)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE July 2, 1986

TO Mr. Gregory K. Ingram, DRD

FROM Phi Anh Plesch, Secretary, REPAC PAP

EXTENSION 33484

SUBJECT Research Proposal: "Population Growth, Employment and Returns to Labor in Agriculture"

1. The above proposal, sponsored by your department, had been reviewed by two Bank staff members and two external referees and subsequently evaluated by a REPAC subcommittee (their reports are attached). The full REPAC considered the proposal at its meeting on June 10. Its views and recommendations are summarized below.

2. First REPAC agreed with the subcommittee's views that, of the proposed work program, only the country case studies which formed the core of the research were worth considering, as the other tasks (statistical review, inter-country estimates, trade model and survey of industrialized country policies) were regarded as extraneous, poorly developed and not very promising.

3. As indicated in the proposal, each country study will use an agricultural sector model which has been estimated by Evenson with students and colleagues, building up on earlier research. What is being now proposed is to expand these sectoral models and to use them to assess, in simulation studies, the quantitative effects of the factors determining employment and returns to labor in agriculture. As the subcommittee pointed out, the approach is positive and not normative.

4. Many questions were raised by REPAC members. The specific policy questions relevant for the Bank which the proposed research sought to answer were not clearly identified. It was noted that a great deal of work had already been done addressing the same broad topic and issues. What additional policy insights will this research provide at a cost of $258,000? What was the rationale for the choice of countries other than the fact that work had already been undertaken in the construction of the model for these countries involving the same investigator, Mr. Evenson? Some arguments could be made that given the quality and reputation of Mr. Evenson, he should perhaps be given a chance to demonstrate that his modelling approach would get better results compared to past work, and this could be done at low cost by funding a pilot study, say in one country. But in REPAC's view, even this was not sufficient justification for the Bank to fund such a method-driven research project, particularly as the motive was to be a small extension of the earlier Binswanger-Evenson model. A parallel was drawn with past modelling exercises such as CGE modelling whose futility

has been demonstrated in Bank operational work. Moreover, the implementation of the RPC's new research priorities required Bank research to move away from method-driven to policy-driven type of research. Furthermore, from the reviews, even "the model" proposed for this research appeared to have its own methodological and data limitations which raised doubts about its robustness and potential usefulness.

5. Finally, concern was expressed that the external investigators would be primarily interested in the model and the research would thus lose whatever policy focus might currently be read into the proposal. In this context, REPAC shared the subcommittee's serious worry about the weak in-house management proposed for the project. It was feared that with the departure of Mr. Kislev from the Bank in seven months, there would be no internal investigator and sponsor left, which would leave the project in jeopardy as no credible replacement was suggested in the proposal.

6. REPAC therefore unanimously recommended against funding the proposal. This recommendation was noted by the Vice President, ERS.

cc and cleared with: Mr. A. Cho[illegible], REPAC Acting Chairman

cc: Messrs. Y. Kislev, C. Lluch, V. Corbo, DRD
REPAC Members

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE June 9, 1986

TO REPAC

FROM Johannes Linn and Stephen O'Brien

EXTENSION 72065

SUBJECT Evaluation of Research Proposal -- "Population Growth, Employment and Returns to Labor in Agriculture"

1. The purpose of the proposed research is "to analyze the factors that affect the demand for labor, the return to labor, and employment in the agricultural sector of developing countries because these factors affect the income of large parts of the population in these countries." The core of the research is a set of four country case studies consisting of a survey of country policies and an econometric analysis of the demand for labor using an extension of the agricultural model developed by Evenson and Binswanger. This is to be complemented by a literature review; a review of worldwide statistics, and the use of the information gathered in the statistical review to carry out an intercountry estimation of a simple agricultural labor market model; a theoretical excursion into a simple model of world trade and comparative advantage; and a review of industrialized countries' policies and their effects on developing countries' labor demand. The total cost of the project is $298,100, of which $258,100 is requested from REPAC, the remainder to be borne by the sponsoring Department. As part of the evaluation we met with the principal sponsor of the project, Mr. Kislev, and with Mr. Constantino Lluch, the Chief of the sponsoring division.

Issues

2. Relevance of Proposed Research: All reviewers agreed that the proposed research is in a highly relevant area and in principle deserves support. The analysis would focus in particular on policy factors determining the demand for and returns to agricultural labor. According to Mr. Lluch, the proposed research will complement other employment-related research underway or under preparation in his division. The research sponsors readily admitted that their research, while providing a quantification of policy impacts would per se not permit normative judgements, in particular whether or not such policies were increasing or reducing efficiency of resource allocation.

3. Quality of Researchers: The quality of the researchers (especially Evenson and Kislev) was universally regarded as very high and as a prime reason for ultimately supporting the proposal, despite some reviewers doubts about the research design.

4. Methodological Issues: Reviewers) raised questions regarding the characteristics of the country model, in particular, the assumptions of fixed labor supply and perfect rural capital markets, the lack of distinction between self-employed and hired labor, and hence between marginal and average returns to labor, the neglect of rural non-farm activities, and the particular form of migration function selected for the model. In the judgement of the sponsors most of these limitations are either not as serious as indicated by the reviewers (fixed labor supply, rural

capital markets, distinction between average and marginal labor returns) or are matters worthy of consideration in further refining the proposed approach (migration function) or as part of complementary research carried out separately (rural non-farm employment).

5. Selection of Countries for Case Studies: The selection of countries was driven by the prior involvement of the principal researchers, rather than by considerations of representativeness or regional balance. Thus, for example, two rather similar countries (Philippines and Thailand) are to be included, but no African country. To the extent that the proposed research is in essence not a comparative exercise, even a single case study should permit the development and evaluation of the proposed model extension. Reviewers noted additional problems: first, the nature of preceding work, especially in the Philippines and Brazil, was not well identified, so that it is difficult to determine what would be the incremental value of the proposed extension of econometric research. Second, other relevant research (but not by the principal researchers or their collaborators) was totally ignored by the proposal, e.g., in the case of Thailand. Finally, for India questions were raised about the availability of data and about how effectively a four-region model can deal with significant intra-regional differences in a country of India's size. The sponsors argued in response that the multi-country approach based on ongoing research would yield high incremental benefits at relatively low cost to the Bank; that other research would be reviewed and drawn on to the extent relevant; and while work in India would be difficult, Evenson's previous extensive involvement in India provided reasonable assurance of the feasibility of the proposed India country study.

6. Extraneous Tasks: The statistical survey, the related intercountry labor market estimates, the trade model, and the review of industrialized countries' policies were generally regarded as extraneous to the core of the proposed research, with a poorly developed research design and promising little success. The research sponsors concurred with the notion that these tasks were indeed not central to the project, but rather complementary work, much of which would be carried out with the departmental resources supplied to the project.

7. Project Management: The proposal foresees no in-house Bank management for much of the duration of the project. Mr. Kislev, who is currently a consultant in Mr. Lluch's division, is expected to return to his university in February 1987, and would supervise the research team from outside the Bank, except during the summer months which he expects to spend at the Bank. When queried by us on this point, Mr. Lluch indicated that his division is searching for a replacement for Mr. Kislev. If the project is approved, the replacement would be identified with a view to his involvement in, and eventual management of the project.

Assessment and Recommendation

8. We agree with the reviewers that the tasks identified in para. 6 above as extraneous (statistical review, inter-country estimates, trade model, and industrialized country policies) are not well integrated with the core of the proposed research, are poorly developed and not very promising. We therefore propose that they not be funded by REPAC; if the sponsoring

Department wishes to fund these items out of its own resources, this should fall outside the project framework.

9. Despite the limitations of the proposed country model as identified by the reviewers, we believe that there is some merit to fully articulating and testing the proposed model extension, but regard it as sufficient to do so initially in one or (maximally) two countries. When combined with the proposed country policy survey and the literature review, this work could provide a basis for one workshop (rather than two, as suggested in the proposal) near completion of the research. This workshop would review the project's findings and consider whether and how the results could be extended through alternative methodological approaches or in a larger number of countries.

10. This low-key approach is also justified in light of the current uncertainties regarding project management (see para. 7 above), and some concerns expressed by Mr. Lluch regarding the cohesiveness of the project team, and the extent to which some members of the team will be interested in focusing their work specifically on the employment and policy aspects of the proposed research.

11. In sum, we recommend that REPAC approve a budget of $45,000, notionally consisting of the following components:

$ 5,000	for country policy review(s)μ
30,000	for country case study(ies)
10,000	for one workshop
$ 45,000	total

This budget would be sufficient to carry out the India case study, or alternatively the Philippines and Thailand studies; of course, the sponsoring Department may wish to provide complementary resources from its own funds to carry out instead the Brazil case study, or to fund a low-cost country case study in addition to the India case. The funds for the workshop would be provided by REPAC on the condition that the Department carries out the proposed literature review in time for the workshop and out of its own funds. Before final approval a revised budget would have to be submitted to REPAC along the above lines, and the Department would have to commit itself to provide for in-house management responsibility for the entire duration of the project. This budget does not include a provision for Mr. Kislev's time during the summers. To the extent his time is not sufficiently covered under the case study budget to carry out the project in the manner specified above, the managing division might be invited to make a case for additional funding up to $20,000.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Reviewer #1

DATE May 10, 1986

TO Ms. Phi Anh Plesch, VPERS

FROM

EXTENSION

SUBJECT Research Proposal on "Population Growth, Employment and Returns to Labor in Agriculture"

1. I have gone through the proposal. The researchers are addressing a theme of considerable importance in the policy area. Anyone who is following the current development experience in developing countries will be struck by the slow pace of occupational diversification, i.e., from agricultural to non-agricultural sectors. This is true even for the countries where the rate of growth in agricultural production is faster than the rate of growth in population. Obviously, there are factors working on the demand and the supply side which inhibit a smooth structural transformation. Most of these factors are an outcome of the domestic policy and economic environment; some reflect the policies and environment of developed countries. To unravel these factors, domestic as well as external, seems to be the major objective of this research. And this is a worthwhile objective.

2. The authors want to build upon the major modelling work pertaining to the four selected countries. I am not competent to comment on the structures or specifications of the models to be used in the study. The authors have a creditable record in this area and I would presume that they are careful and conscientious when dealing with the data inputs. However, I am uneasy on two counts.

3. My first concern is about the selection of the countries. There is no justification provided for the selection of the four countries included in the study except an implicit one, i.e., one of the researchers is (or was) involved in the modelling work in all these four countries. Whenever more than one country is selected, one assumes that the researchers are using some typology. In the case of a labor market study, the typology could be based on the factor endowment (land, labor, capital); stages of growth (reflecting demand for non-farm labor); or institutional arrangements (land tenure and farm organizations). What distinguishes or typifies these four countries as far as the functioning of the labor markets are concerned is not clear. In fact, inclusion of a Sub-Saharan African country for which some modelling exercises are available (e.g. Ivory Coast, Kenya) would have made more sense. The functioning of the labor markets in Sub-Saharan Africa both on the demand and the supply side are creating problems which are of a different genre than those faced in, say, Asian economies. (See, for example, recent papers by Mellor and Ranade).

4. My second substantive comment concerns the policy issues, addressed in this study. Although each country section in the research proposal includes a sub-section on "policy issues", the discussion is too general to give a feel for the scope for policy intervention variables listed, (e.g., credit, input supplies, research, extension, etc.--precisely those variables each government is manipulating). The project can address the policy issues only after specifying the nature of extant labor contracts in each of the selected countries, for example, the relevance of the inter-linked markets in the selected areas. The Bank has supported a major initiative in this area for India. The policy variables cannot be discussed without first examining the existence of the interlinked markets, their effects on reward for labor and the extent to which they add to or detract from the rewards from other activities. There are other institutional dimensions which affect the functioning of the labor markets. If it is presumed that the country case studies will address these questions, some indication should be provided of the overall labor contract framework for each country study.

5. A minor, and a managerial, point. It seems from the proposals that one of the three authors, who is now with the Bank, will not be a full-time staff during most of the period when the project would be on the ground. He will be visiting Washington, D.C. for three months each year in the two subsequent years. This is a major and complex project and project management will be very difficult unless it is constantly coordinated by someone in the Bank.

6. To sum up, I consider the project to be of importance and have respect for the researchers based on their contributions in this area. However, I would like the researchers to think of the possibility of including a Sub-Saharan African country in the study; clearly articulate the hypothesis on labor contracts; and make some more realistic arrangement for the management of the project.

THE WORLD BANK · INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Reviewer #2

DATE April 29, 1986

TO Mr. Deepak Lal

FROM

EXTENSION

SUBJECT Population Growth, Employment and Returns to Labor in Agriculture

1. Because of my close personal involvement in the subject and in the style of work which is proposed, I comment on this proposal with great hesitation. The topic addressed is one of the most important ones for agricultural policy in the developing world. Evenson and I jointly developed the techniques to be utilized in the country case studies, and even did much of the data gathering and estimation for the existing India models together. Moreover, the comparative study on agricultural prices does indeed provide an excellent starting point for a comparative inquiry into the impact of government policies on employment and self-employment opportunities in agriculture and on the returns to labor. With a relatively modest effort it would be possible to extend the country case studies on pricing to cover the complete set of agricultural policies which affect labor (land laws, tenancy laws, labor laws, income tax provisions, input and credit subsidies, etc.).

2. In addition, modeling of the type proposed is essential in order to synthesize the impacts of various, and possibly offsetting agricultural policies, on efficiency and equity outcomes. And I have pressed for such modeling to be done for a subset of countries even in the Political Economy study. Any research project which wanted to look at rural labor welfare would have to have a substantial modeling component for at least a selected subset of countries to be studied.

3. Yet it appears that the value added of the proposed four-country studies in relatively limited and that some of the analytical improvements over earlier modeling efforts are not the most appropriate way to go. I have discussed all these concerns with the sponsors of the project.

4. India: Most of the policy issues identified on p. 22 have been analyzed by Quizon and Binswanger in a national model and in a four-region model. These papers are either already published or in the process of publication and we are a few months away from a book manuscript (Publication list attached). The only difference in the proposed work is the endogenization of agricultural investment and land expansion via an intertemporal profit maximizing model. I believe that rural investment cannot be modeled in such a way (see paras 8 and 9 for details). Moreover, how does one generate regional annual capital stock series for India? Only the quinquennial census data have a regional dimension. But apart from these technical objection, the sponsors of the project do not summarize the policy conclusions with respect to labor which were achieved in our and their own prior work. And they give no indications of how the endogenous treatment of private investment and land expansion is likely to alter the policy conclusions already reached.

5. Philippines: The project will assist the synthesis of an ongoing model building effort at a conference in the Philippines, a most worthwhile effort. What further policy insights are expected from the proposed work? Little is said on what additional policy work is planned. From the technical point note that the proposed dynamic extension cannot be estimated with farm level data as planned because labor demand is assumed fixed in that model (see point 8).

6. Thailand: The key policy issue mentioned - namely, the impact on labor income of the rice import tax has been analyzed in an excellent paper by Amranand and Grais, which uses a computable general equilibrium model of Thailand. Since the labor supply side and migration functions will not be estimated, but rather borrowed parameters will be used, how will the results differ from Amranand and Grais?

7. Brazil: No review is given of the policy conclusions achieved by Arne Dish. The value added of the proposed extension is therefore hard to judge. I also believe that in Brazil some of the major agricultural labor issues revolve around land laws, tenancy laws, labor laws and the use of agriculture and agricultural machines as tax shelters. I don't yet see how these policies can be analyzed within the proposed framework.

8. The intertemporal profit maximizing model is the only analytical extension proposed. It assumes that the agricultural labor force is exogenously given in the short run. But even at the aggregate level labor can be withdrawn from the rural nonfarm sector, and labor participation rates can change. Moreover, the model cannot be estimated with farm level data - as proposed for the Philippines - because for individual farms labor supply is very elastic. The model also assumes that credit is available in unrationed quantities at the interest rate. But work by Srinivasan and Bell and by Rosenzweig and myself shows that rural credit markets are highly fragmented and that there is rationing in both the formal and informal sector.

9. Investment can, however, be endogenized in other ways. One can specify a special investment submode in the general equilibrium model. Quizon, Evenson and I have long thought about such an extensions, but econometric estimates of investment functions have not existed so far. Rosenzweig and I have an ongoing project on agricultural investment in India (RPO 673-35) which models investment in the context of highly imperfect rural capital markets. One intended use of the results from that project is the endogenous treatment of farm investment in a general equilibrium framework and we will of course be glad to make our results available to the proposed or any other project.

10. The trade model (p. 29): It is hard to see the relationship of that model with the overall proposal.

11. Budget: Computer costs are inadequate, especially if complex nonlinear estimation of the dynamic profit function is contemplated. The consultants fees for the country authors are also inadequate. How much effort will a highly qualified economist supply for $3,000?

12. Recommendations:

(a) Abandon the intertemporal profit maximizing framework and substitute specific investment submodels, and econometric estimation of investment functions in Thailand, Philippines and Brazil.

(b) Drop the India country study, or make it contingent on the sponsors providing a discussion of the labor-relevant policy conclusions already reached and of the additional policy work planned.

(c) Expand the estimation of the supply side and migration in Thailand and discuss the value added relative to Amranand and Grais.

(d) Drop the work on the theoretical trade model.

(e) Expand the emphasis on the four-country policy studies.

Attachment

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Population Growth, Employment and Returns to Labor in Agriculture: Referee Comments.

Although the proposal is about "the returns to labor", the term is never defined. On page 1 we are told that the study will encompass both self-employed and hired workers "but the distinction is not central to this proposal". My first query is whether the proposal means marginal or average returns. If marginal, then this is clearly important for hired labor, but does not seem central to the self-employed. If average, then it has no bearing upon hired workers but is relevent for the self-employed. At present the proposal seems to be primarily about the demand for labour function. Since many policy changes can be expected to twist this function, for example raising the average but lowering the marginal returns to labour, I do not understand why the authors regard the distinction between hired and self-employed labour as being of so little importance.

I start with this distinction because the failure to make it seems symptomatic of a lack of focus in the proposal. Many of the policies discussed seem primarily to be of importance through their effect on average returns. However, in its methodology the study offers an analysis of the determination of the marginal returns.

The proposed methodology, duality theory with adjustment dynamics for the representative household, is quite advanced and well set out. There is, in my view, something of a gulf between the careful articulation of the model and the rather cavalier remarks on the problem which it is designed to address. This may well merely reflect the obvious fact that the authors have yet to do the applied research. However, the presentation does leave open the interpretation that the authors very much enjoy their model and would like to keep developing it. It is therefore germane to investigate the specific features of the model to discover how these are pertinent to the problems addressed. Key features of the model are:-

1) costly adjustment of the capital stock
2) slow adjustment of the laborforce through a migration function
3) "perfect" rural labour and credit markets.

The proposal does not discuss why these features are particularly desirable. Since the questions raised about labor absorption are surely long-run, I have doubts as to whether the incorporation of adjustment costs is worth the trouble. At least it would be reassuring to learn from the authors what pertinent explanatory power they expect from this feature. That the authors are addressing long-run questions is something I infer from the preamble (about labor supply growing for many years to come) and

from Table 1, where the phenomenon to be explained appears to be the change in the average product of rural labor over an 18 year period. Perhaps the authors could make more explicit the time frame which their research will address.

The incorporation of a migration function seems to me to be a diversion from the main purpose of the proposal, namely, the estimation of demand functions for labor. If labor supply were to be realistically endogenised in a long-term model much more than a migration function would be required. However, if the model is confined to the question how might policies effect the capacity to absorb exogenous changes in labor supply, which seems perfectly reasonable, a migration function is unnecessary. The third feature of the model is, as the authors admit, a limitation of its applicability. Obviously it exposes any results to criticism. I would regard the credit market assumption as being rather more damaging than the labor market assumption.

The choice of countries is determined by the criterion that the authors have done previous similar work on them. This is a sensible criterion, bnut it does detract from a coherent comparative study. The proposal is best interpreted as a series of four case studies, any subset of which could be detatched. Indeed this may well be desirable. For example, the Philippines case study appears to be a minor extension of a large and nearly

completed research project. According to the proposal (page 23) the only addition is the inclusion of adjustment costs. How much extra do the authors expect to squeeze out of this?

Near the end of the proposal (page 29) several other pieces of research appear unheralded. In addition to the complex quantitative modelling of the returns to agricultural labor, there is going to be a non-quantitative paper on Trade Theory. Why? Because "improving agricultural productivity in the developing countries raises the issue of the world market and comparative advantages in agricultural production." Nothing more is said. There is also going to be a paper (author not yet known) on the effect of the policies of the industrialised economies.

There is a danger that the study will end up with some marginal,pretty technical increments to existing research, plus some loosely related policy overview papers (themselves summaries of existing Bank research), plus a couple of commissioned papers which are not integrated with the core of the study. This may well be a grave misrepresentation of what will actually emerge (the authors surely think so and they are reputable scholars). The Bank may quite sensibly decide to back good scholars even though their proposal, were it to carry other names, would give rise to substantial doubts.

REVIEW OF "POPULATION GROWTH, EMPLOYMENT, AND RETURNS TO LABOR IN AGRICULTURE: A RESEARCH PROPOSAL"

The principal objective of the proposed research is "to assess quantitatively the factors that affected employment and returns to labor in agriculture in the past and the potential effects of possible future policy measures" (p. 5). The study will be policy-oriented, examining the effects of both price and nonprice policies. The narrow focus on agriculturl employment and income, however, will disappoint those policymakers in developing countries who are interested not only in promoting agriculture's interest, but also in being enlightened on the strategic role of agriculture and the rural sector in the whole development process. To be informed about ways to employ more people in the agricultural sector is less appealing to them than being advised on how production in other sectors of the economy can be stimulated through so-called rural growth linkages. This is because a strong bias still exists among developing country policymakers against a heavily agriculture-based production structure.

To be sure the research proposal is explicit that "in low-income agrarian economies, where the share of industry and services in the labor force is comparatively small, even rapid growth of the nonagricultural sector will not suffice to absorb the foreseeable increases in the labor force" (p. 4). But this only underscores the need to examine both agricultural and nonagricultural employment and, even more important, their interaction. After all, such newly industrializing countries (NICs) as Taiwan and South Korea were low-income, agrarian economies not so long ago.

This is not to say that the proposed research will be devoid of policy significance. The empirical evaluation of the possibilities for efficiently expanding the labor absorptive capacity in agriculture through policy reforms should be of paramount interest, at least in the short to medium term, to policymakers in developing countries with severe unemployment and underemployment problems. The results of the proposed study can be expected to draw attention to the probable loss in agricultural employment and income due to inappropriate policies, including sector-specific policies as well as trade and macroeconomic policies. Indeed there is surprisingly little work done on how labor markets are being affected by real exchange rate movements due to trade and macroeconomic policies, given the critical role of the real exchange rate in resource allocation as suggested by recent developments in some developing countries.

Apart from the statistical and literature reviews, the program of work consists of: (1) a survey of policies of developed countries and their effect on the demand for labor in agriculture of the developing countries; (2) an intercountry estimation of an agricultural demand-supply model; and (3) an econometric analysis of demand for labor in agriculture in Brazil, India, the Philippines, and Thailand, based on a "complete agricultural sector model."

Concerning (1), it is not made clear what policies of developed countries, and which developing countries, will be specificially considered. "The effect on the derived demand for labor will be calculated either by using the estimated systems of the country studies (through the price variables?) or by multiplying the effects on the demands for the products by the corresponding labor coefficients" (p. 29). Is this component of the proposed research meant to relate only to the four countries for which econometric work will be done? A more general setting for the analysis would obviously enhance the usefulness of the exercise.

The description of component (2) is similarly not well articulated. The theoretical and statistical difficulties in estimating an inter-country agricultural (why not rural, including off-farm?) labor market model are not being anticipated.

Component (3) evidently comprises the major thrust of the proposed prject. It will build on previous and ongoing work by one of the principal investigators (R. Evenson), the proposal indicating the extensions to be made and policy issues to be addressed in each of the four countries. The basic framework of analysis is a system of output supply and input demand (including labor demand) equations based on profit-maximizing behavior of a "firm representing the industry" (agriculture) with three "quasi-fixed" factors of production--labor, land, and capital. Throwing in (fixed?) factor supply and product demand elasticities makes a complete agricultural sector model, and the model is dynamized by the gradual adjustment of the three factors to exogenous change.

The profit function or "dual" approach is a relatively new development in modelling producer behavior. It is theoretically very appealing to apply to a multi-product industry such as agriculture, provided profit-maximizing competitive production and "regular technology" can be reasonably assumed. Risk-averse behavior is, however, not normally taken into account. The econometric advantage of the dual approach is that variables such as the product and variable-input prices and fixed-input quantities, which are typically regarded as exogenous, appear on the right-hand side of the output supply and input demand equations, while the endogenous variables appear only on the left-hand side. For a policy-oriented study it also offers the advantage of being able to provide immediate policy handles--in terms of both price and nonprice (e.g., infrastructure) variables.

Empirical results based on the profit function approach are not entirely consistent with some of the implied hypotheses, judging from some published studies that confront the testable assumptions with data (before they are "maintained"). This inconsistency could be due to wrong basic assumptions (e.g., on profit-maximizing behavior), inappropriate model specification, unreliable data, or incorrect econometric procedures. The statistical quality of the estimation results has also been found to differ, sometimes significantly, at different levels of product aggregation and geographic classification.

Having said the above, I would still favor using this analytical framework--provided the researcher has a high degree of technical competence and intimate knowledge of the data sets to be used and of the economic structure and institutional environment of the developing country to be studied. Given the description of the earlier work on which the four country studies will be based, it seems clear that the participation of Evenson is a necessary condition for the project's effective implementation. Indeed the heavy reliance on the results of the earlier studies makes one wonder whether Evenson's collaborators from the developing countries will not resent their being left out in this larger research project.

In contrast to the cogent theoretical derivation of the production side of the model, including the determination of the short-run changes in capital and land, the specification of the "migration behavior of the rural labor force," which determines the supply of agricultural labor, is rather weak. A major source of weakness is the neglect of nonagricultural production and employment in the rural sector which, for the four developing countries to be investigated, is clearly inappropriate. Agricultural workers need not migrate to the urban sector if there are attractive employment opportunities in rural industry and services.

Exegoneity of the urban wage rate and the rate of urban unemployment might seem reasonable to assume in an agricultural sector model. However, when nonfarm (e.g., trade and macroeconomic) policies are analyzed for their effects on agricultural employment and income in model simulations, the indirect effects through the urban labor market need to be incorporated. As the model now stands, such indirect effects are being ignored.

Concerning the independent variable G in equation (5), is it to be represented by an aggregate "rural stock of public social investments?" Setting aside the measurement problem, would not the urban stock of public social investments also have some influence on rural labor migration?

Finally, given the prominence given to population growth in the title of the proposed study, one would have expected a more elaborate role of population in the workings of the rural labor market. In equation (5) the growth of farm population is shown to add directly to labor supply. What about the influence of the growth of nonfarm population through (again) the urban labor market? Are there no effects of the operation of the rural labor market on the structure and growth of total population? The proposed research would certainly benefit from a richer model that endogenizes the population variable to capture more fully the interaction between demographic behavior and the rural labor market.