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THE WORLD BANK  
Washington, D.C.

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OP - RESEARCH

1972/74

IV

The World Bank Group  
**Archives**



30045540

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Operations - Research 1972 / 1974 Correspondence - Volume 4

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THIS FILE IS CLOSED AS OF 31 July 1973  
FOR FURTHER CORRESPONDENCE PLEASE SEE Vol V

TOR-Research

INCOMING CABLE

DATE AND TIME  
OF CABLE:

JULY 31, 1973

0906

LOG NO.:

12 / 31

TO:

INTRAFRAD - ODONE

FROM:

TUNIS

ROUTING

ACTION COPY:	TOURISM PROJECT
INFORMATION COPY:	MR. SIEBECK
DECODED BY:	

TEXT:

SUITE COMMUNICATION TELEPHONIQUE DU 27 JUILLET AVEC MONSIEUR BAUER  
 RELATIVE ETUDE SUR L'AIDE DE L'ETAT AVONS PRIS NOTE QUE  
 PRIMO MONSIEUR MITCHELL SERA DISPONIBLE DANS LES PROCHAINES SEMAINES  
 SECUNDO L'OFFRE DE HOWARTH ET HOWARTH TROP ELEVEE EN CONSEQUENCE  
 PROPOSONS CONTACTER INGENIEURS CONSEIL SUIVANTS  
 BATELLE INSTITUTE GENEVE DEUTSCHES WIRTSCHAFTSWISSENSCHAFTLICHES  
 INSTITUT DE L'UNIVERSITE MUNICH CENTRE D'ETUDES DU TOURISME AIX EN  
 PROVENCE (FRANCE)  
 VOUS SIGNALONS TOUTEFOIS AVOIR TROUVE QUELQUES DIFFICULTES A FAIRE  
 ADMETTRE AUX AUTORITES TUNISIENNES PARTICIPATION INGENIEUR CONSEIL  
 ETRANGER VOUS DONNERONS PLUS AMPLES PRECISIONS SUR CE POINT DANS PRO-  
 CHAINE LETTRE TRÈS HAUTE CONSIDERATION.

AZZABI

dj

Jul 31 10 12 AM 1973

COMMUNICATIONS SECTION

DATE AND TIME OF CALL

LOG NO.

TO

FROM

ACTION COPY  
INFORMATION  
COPY  
RECORD BY

TEXT

*Research  
Urban Electricity*

31 July 1973

Dear Mr Berrie

Research Project  
Standards of Urban Electricity Distribution

I have now received the contract for the research project and before returning it to Miss Lenthe I thought it would be advisable to write to you about the total amount involved, because paragraph 3 of her letter states: "For services rendered, the Bank will pay your firm a gross fee of up to US\$10,000....."

When we first estimated the number of days required you thought that about 36 days would be necessary for the team which did not include a visit to Latin America, nor travelling time between the UK and Washington.

Since then the study has been modified to include an introductory period for writing a Review Paper and from your letter it looks as though the visit to the United States and Latin America would take ten days, not including travelling to and from this country. With our present knowledge we can probably reduce the amount of time spent on scanning literature, but the total number of days required will certainly not be much less than the original estimate. In terms of man days, I think we should allow something in the region of 130 which at \$200 per day brings the total to \$26,000.

I shall be most grateful for your comments. In the meantime we are continuing with the Review Paper and hope to send it to you later this week.

Yours sincerely



T W Berrie Esq  
Power Economics Advisor  
Public Utilities Department  
International Bank for  
Reconstruction and Development

Date Received:	<i>Aug. 3, 1973</i>
Assigned to :	<i>Mr. Berrie</i> <i>Miss. 3-50</i>
Action Taken :	<i>Berrie</i>
By	<i>Letter Aug 6/73</i>

COMMUNICATIONS  
1973 AUG -3 PM 8:55

RECEIVED

July 31, 1973

Mr. Maurice Curtis  
Transport & Tourism Technicians Limited  
c/o 63 Carlton Mansions  
Randolph Avenue, London W.9  
E n g l a n d

Dear Mr. Curtis:

Air Transport Research

It was a pleasure to see you in Washington last week.

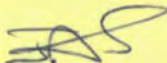
I would like to confirm our understanding of a few details about the completion of your report. The remaining sections of the draft (mainly the Summary, and Sections E, F, G and H of the Terms of Reference) will be mailed to Washington by August 3rd. You should receive our comments by August 15th, which will include any points our Aviation specialists may wish to add. A few copies of your Final Report should reach us in Washington by September 3rd, the remainder following within a week by airfreight. The Final Reports will be typed in single-spacing, with typeface, layout, and paragraph numbering as similar as possible to the standard Bank presentation, a specimen of which you have. They may be run off on one or both sides of the paper, whichever is more convenient for you.

We attach great importance to your Summary, which we suggest should not exceed three pages. This should stress the main conclusions emerging from the body of the report, and indicate the significance of these to tourism prospects in the developing countries.

Wherever possible, your Final Report should include references to relevant sources, mostly by use of the code numbers as given in your Exhibit 1.

You may find that in the course of the study you have collected much statistical and other data which are relevant but not of such direct interest as to be included in the Annexes to the Final Report. If this is the case, you may wish to consider sending us one copy of such material, in any form that is convenient, as a supplementary annex.

Sincerely yours,



J. A. Simmons  
Chief, Division I  
Tourism Projects Department

cc: Mr. Bostrom  
AHayman: hk *AM*



D.P. Research

July 31, 1973

Dr. Seidel  
The Bundesanstalt Fur Arbeit  
Frauentorgraben 33-35  
8500 Nurnberg, Germany.

Dear Dr. Seidel:

Will you forgive me for not thanking you earlier for all your kindness when I visited you in Nurnberg? I am afraid I am writing now with some more requests.

If the complete survey of migrant workers can now be released, would it be possible to send me a copy by airmail? If the report is not yet ready for release, could you let me know the size of the sample on which it is based, especially as regards the Turks - this was not stated in the extracts you gave me.

These extracts and the material that Herr Kuhlewind gave me, have been of the greatest use, and I must thank you for making them available to me. But I am not sure that I have always interpreted the tables correctly. In particular, am I correct in assuming that this is the forecast made by the Institut fur Arbeitsmarkt und Berufsforschung of the numbers of foreign workers in Germany: I enclose a copy of the table from which I took it.

Forecast of Foreign Workers in Germany

1973	1975	1976	1977	1978	1980	1985
2455	2656	2709	2703	2672	2704	2163
	(+201)	(+53)	(-6)	(-31)	(+32)	(-541)


(Figures in brackets refer to changes over previous periods.)

I If I have used the wrong figures, would you be kind enough to send me a cable giving the correct figures? We require these figures urgently in order to forecast migrants' remittances to Turkey.

Also, has the German Government taken any steps recently to restrict the inflow of migrants?

With best wishes.

Yours sincerely,

  
Dharna Kumar

Population and Human Resources Division  
Development Economics Department

Attachment - 1.

(in 1000)

	1973	1975	1976	1977	1978	1980	1985
Wohnbevölkerung 4. koord. BVB <i>Kopie</i>							
Var. 1	61 422	61 281	61 198	61 108	61 014	60 822	60 398
Var. 2	61 412	61 184	61 035	60 881	60 721	60 396	59 627
Inländ. Wohnbev.							
Var. 1	58 362	58 082	57 999	57 840	57 746	57 486	56 938
Var. 2	58 352	57 985	57 836	57 613	57 453	57 060	56 167
Inl. Potentialerwerbsquoten <sup>1)</sup>	42,2	42,1	42,1	42,2	42,3	42,6	44,2
Inländererwerbsquoten <sup>2)</sup>	41,8	41,6	41,6	41,7	41,9	42,0	43,4
Inl. Erwerbspersonenpotential (Inländerkonzept) <sup>†</sup>	24 613	24 438	24 390	24 396	24 422	24 504	25 163
./o. Stille Reserve <i>Keine Reserve</i>	60	-	-	-	-	-	-
./o. FuU <i>Training &amp; retraining</i>	100	100	100	100	100	100	100
./o. Bildungspläne	-	-	-	-	-	-	-
./o. Flexible Altersgrenze <i>see limit</i>	88 <sup>3)</sup>	150 <sup>4)</sup>	150 <sup>4)</sup>	145 <sup>4)</sup>	135 <sup>4)</sup>	240 <sup>5)</sup>	335 <sup>5)</sup>
Inländ. Erwerbspersonen (Inländerkonzept)	24 365	24 188	24 140	24 151	24 187	24 164	24 728
./o. Grenzalter <i>Keine Grenze</i>	65	65	65	65	65	65	65
Inländ. Erwerbspersonen (Inlandskonzept)	24 300	24 123	24 075	24 086	24 122	24 099	24 663
Ausl. Erwerbspersonen in Inland <i>Einwohner</i>	2 455	2 656	2 709	2 703	2672	2 704	2 163
Erwerbspersonen insg. <i>total</i>	26 755	26 779	26 784	26 789	26 794	26 803	26 826
./o. Arbeitslose <i>unemp.</i>	100	200	200	200	200	200	200
Erwerbstätige <sup>6)</sup> <i>total</i>	26 575	26 579	26 584	26 589	26 594	26 603	26 626
(Inlandskonzept) Selbständige + Mith. <i>self emp. + part. emp.</i>	3 961	3 746	3 642	3 536	3 444	3 237	2 837
Besch. Arbeitnehmer	22 614	22 833	22 942	23 053	23 150	23 366	23 789
(Abhängigenquote) <i>Depend. 1/2</i>	(85,1)	(85,9)	(86,3)	(86,7)	(87,05)	(87,8)	(89,4)
Deutsch. beschäft. Arbeitnehmer	20 164	20 182	20 238	20 355	20 483	20 667	21 631

1) Erwerbsquote aufgrund Trendfortschreibung    2) Erwerbsquote unter Berücksichtigung der Auswirkungen der flexiblen Altersgrenze und FuU  
 3) Übergangsphase *Transition*    4) Annahme: 50 % der 63- und 64-jährigen scheiden aus    5) Annahme: 50 % der 60 - 64-jährigen scheiden aus  
 6) Annahme: Fortsetzung des bisherigen Wachstumstrends bei Produktion und Produktivität *On assumption that past trends in C + productivity will continue*

Inländerkonzept

Ausl.

Beschäftigte

D.P. Research

July 31, 1973

Mr. Rodney Cole  
Managing Director  
Papua New Guinea Development Bank  
A.N.G. Building  
Port Moresby,  
Papua.

Dear Mr. Cole:

Sir John Crawford wrote to you last month about the proposed cocoa study that we are now initiating and had indicated to you that we planned to include Papua New Guinea among the sample of major cocoa producing countries. This is our first venture into analysis of the comparative advantage criterion concerning cocoa production in various regions of the countries to be covered by the study. The task is a difficult one, but I hope that with the cooperation of the member countries we would be in a position to prepare a study which, hopefully, would give some measure of guidance to those responsible for deciding investing in cocoa and alternative crops. We understand that Papua New Guinea would constitute an interesting case of resource allocation in alternative crops and of development of new regions. Sir John is here in the Bank again in connection with meetings of Agricultural Advisory Panel and has assured me that you would be in the best position to assist us in completing your end of this study. I am sending you by separate mail, some draft chapters on methodology and the data collection forms so that you may be aware of the scope of our study.

I plan to reach Port Moresby on Saturday August 18, by flight QF 289 from Hong Kong. I plan to stay there until August 24. Apart from consultations with the relevant government agencies, I would be interested in visiting some cocoa plantations and some smallholders. I would also like to meet some traders. I hope you will be able to make the necessary arrangements so that I can profit from this visit. On Sir John's suggestion I am writing an identical letter to Mr. W. Conroy.

I will be staying at the Davara Motel and would appreciate it if you send me some material to read on arrival before I meet you and your staff. I would also be available to go on a field trip on Sunday, August 19, if at all this is possible.

Yours sincerely,

Shamsher Singh  
Chief,  
Commodities & Export Projections Division  
Economic Analysis & Projections Department

July 31, 1973

Mr. Ted White  
Petroleum Economics Ltd.  
1, Argyll Street  
London W1V 2DS  
England

Dear Mr. White,

Studies in Fuel Oil Pricing

I hope that Mr. Newton and yourself had a pleasant trip home.

Since you left us Mr. Friedmann and myself have been able to clarify our thoughts much more on what is required by ourselves and the Bank's operating divisions with respect to the special study on Fuel Oil Prices. The matter is becoming somewhat urgent and I am anxious to discuss broad outlines, contract terms, etc. with you, your colleagues and, if possible, the specialist who will carry out the work (Dr. Frankel?) during my next visit to Europe in September. A day during either of the weeks commencing September 3 or September 10 would be possible.

I would appreciate an early reply so that I may get my time-table into some sort of order.

With best regards,

T. W. Berrie  
Power Economics Advisor  
Public Utilities Department

*JB* cc: Messrs: Foster, Henderson, Rovani, Howell, Friedmann, Berrie  
Files

D.V. Reveerah

Mr. Michael A. Cohen, URED

July 30, 1973

Douglas H. Keare, Chief, URED

Terms of Reference for Participation in Zambia Urban Survey Mission  
and Supervision Mission in Senegal

1. You will arrive in Lusaka, Zambia, by August 27, 1973, to participate in the Zambia Urban Survey Mission headed by Mr. John English. You will review the existing problems in upcountry urban centers outside of Lusaka in order to suggest an urban-regional strategy for the country.
2. The detailed terms of reference for that mission will be prepared by Mr. English and will apply to both your and his activities during the mission.
3. After completion of the mission in Zambia, you will proceed to Dakar, Senegal, for two days of discussions with officials at the Office de l'Habitat des Loyers Moderes (OHLM), the executing agency for the Senegal Site and Services Project.
4. Before your arrival in Zambia, you will take two weeks of leave in East Africa.

DHK:ap

Cc. and Cleared with: Mr. Gulhati

Cc.: Messrs. English, Carrere, Denning, Kikuchi

July 30, 1973

Mr. W. Conroy  
c/o Chief Minister's Office  
Port Moresby,  
Papua.

Dear Mr. Conroy:

Sir John Crawford wrote to you last month about the proposed cocoa study that we are now initiating and had indicated to you that we planned to include Papua New Guinea among the sample of major cocoa producing countries. This is our first venture into analysis of the comparative advantage criterion concerning cocoa production in various regions of the countries to be covered by the study. The task is a difficult one, but I hope that with the cooperation of the member countries we would be in a position to prepare a study which, hopefully, would give some measure of guidance to those responsible for deciding investing in cocoa and alternative crops. We understand that Papua New Guinea would constitute an interesting case of resource allocation in alternative crops and of development of new regions. Sir John is here in the Bank again in connection with meetings of the Agricultural Advisory Panel and has assured me that you would be in the best position to assist us in completing your end of this study. I am sending you by separate mail, some draft chapters on methodology and the data collection forms so that you may be aware of the scope of our study.

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I will be staying at the Davara Motel and would appreciate it if you send me some material to read on arrival before I meet you and your staff. I would also be available to go on a field trip on Sunday, August 19, if this is at all possible.

Yours sincerely,

cc: Mr. L. Helmers

SSingh:jl

Shamsher Singh  
Chief,  
Commodities & Export Projections Division  
Economic Analysis & Projections Department

## OFFICE MEMORANDUM

TO: Files

DATE: July 30, 1973

FROM: A. Hayman *AH*SUBJECT: Air Transport Research - Summary of Visit of Project Director,  
Mr. M. Curtis - July 26 - 27, 1973

1. The original timetable for completion of the study has had to be revised, due to Mr. Curtis' serious illness. The current timetable is:

Completion of all final drafts:	August 3rd
Bank comments to Consultants:	August 15th
Production of final report:	August 29th
Receipt of final report:	September 2nd

In spite of the delay, this involves no slippage from the last timetable, which gave September, 1973 as the target for completion.

2. The drafts so far seen indicate that the Terms of Reference are likely to be covered adequately. Sections not yet seen in draft include the bulk of parts E, F, G, and H of the Terms of Reference.

3. The tone of the draft is deliberately non-controversial, as would be appropriate to a handbook or manual. I told Mr. Curtis, however, that we would welcome opinions and judgments even when controversial, provided they were adequately supported.

4. The final report would start with a summary stressing the main conclusions significant to Bank lending for tourism.

5. Throughout the report, reference numbers to relevant sources would be inserted.

cc: Mr. J. A. Simmons

# OFFICE MEMORANDUM

Central Files

TO: Mr. Anandarup Ray, Office - V.P.,  
Development Policy  
FROM: Clell G. Harral, Chief, Research Division  
Transportation Department  
SUBJECT: Research Project Status Reports

DATE: July 28, 1973

*D.P. Harral*

1. Pursuant to your memorandum of July 16, 1973, forwarded herewith are final status reports for FY 73 on the following research projects: 226, 227, 228, 229, 231, 232 and 271.
2. At the moment of writing, I do not have in hand status reports for the following projects: "Railway Traffic Costing Study"- No. 233 and "Criteria for Choice Between Electric and Diesel Traction in Project Evaluation" - No. 235. Mr. Nanjundiah is handling project 233 and we can complete this report only after he returns on August 9. Mr. Alston is handling project 235; preparations to undertake this project are nearing finalization and we expect to submit this project for new funding in the near future.
3. Note that for project 226, I have been unable at this time to reconcile our accounts with the Controller's print out sheets of June 30, 1973. The totals are some \$11,000 apart, our figures showing \$141,596 and the print out sheets \$152,600. (Note that we expect about \$3,000 in further payments for work performed in FY 73 but not yet disbursed.) I have used our figures for the current status report and hope that we resolve the discrepancy when I return to the Bank in mid August.

CGHarral:phm

cc: Mr. Paul Smith



*Q. Research*

IBRD LANGUAGE SERVICES DIVISION	
CONTROL No. <i>B-124/74</i>	DATE: <i>July 27, 1973</i>
ORIGINAL LANGUAGE: <i>Spanish (Chile)</i>	
DEPT. <i>Dev. Research</i> Center	TRANSLATOR: <i>MPH:ga</i>

INCOME DISTRIBUTION RESEARCH PROJECT

In the developed countries, incomes are usually less unevenly distributed, and the condition of extreme poverty is more clear-cut. Affecting only a minority of the population, poverty tends to be linked to educational opportunity or racial origin, or occurs primarily in particular regions or occupations.

In the less developed countries, which classification includes Chile, poverty is more generalized, covering approximately 50% of the population. It is caused by many different factors, and does not occur in any one social group, for this 50% includes manual workers, office workers, self-employed persons and employers; we cannot say that it is concentrated in a specific economic activity, because there are appreciable numbers of poor in all occupations; nor can we say that the poor are located in one or two geographic regions, for poverty exists throughout the country.

This is not to deny that there are social groups, activities and regions having a relatively higher proportion of low-income population.

What we are saying, in a word, is that poverty in the developing countries is highly heterogeneous.

Information about this heterogeneity can provide criteria for designing specific policies aimed at eliminating <sup>or</sup> alleviating poverty.

In many cases, lack of information leads to undue emphasis being placed on the use of certain instruments, such as wage increases, and this has adverse effects on the level of employment without actually doing anything to help the poorest people, either because they are not earning or because they are so poorly organized and ill-equipped to negotiate contracts that they receive worse treatment than the better organized social groups.

Similarly, we often hear the oversimplified statement that the transfer of income from privileged groups to the less privileged will be sufficient to solve the problem of unequal income distribution.

Not only is this approach not founded in reality, but it presents political and practical difficulties which tend to be underestimated by the use of overall or national statistics.

In the case of Chile, data available for 1967 show that of the 500,000 persons having an average income of \$<sup>o</sup> 1,159 (the top 20% income bracket) 32,000 were employers, 113,000 were self-employed, 302,000 were office workers and 53,000 were manual workers. We can imagine the political problem of making these social groups take a large cut in real income. They constitute the main centers of power; the economic power of the landowners, the managerial base of the public and private sector, the professionals, technicians, skilled workers, etc.

Admittedly, the policy could discriminate between them, but how should far/such discrimination go? What criteria would apply? What would be effective ways of limiting their incomes? Even supposing we could narrow down the search to the group which ought to bear the burden of income redistribution, to what extent would the total income involved be sufficient to bring about a substantial rise in the income of the poorest sectors? And if it were possible to make this transfer of financial resources, how and within what time span could this be made effective in terms of real resources?

Many more such questions could be asked, but these should suffice to indicate the need for detailed information on income distribution. For there is also heterogeneity among those who are normally termed rich. It is a fact that when people talk about the rich in Chile no one wants to include himself among them: everyone points to his neighbor as an example. We therefore need to define and specify the persons enjoying a relatively privileged position. There is no doubt that many manual workers, office workers and professionals would be very surprised to find themselves classified as such; but it would be an extremely useful exercise for placing the problem in its true dimension.

In brief, we are of the opinion that the study of income distribution and its subsequent phases requires a knowledge of the whole spectrum of this distribution: extreme poverty, middle income groups and high

income groups. This information is needed both for identifying the factors common to each group which appear to explain best why its members are in one bracket rather than another, and also for defining the scope of the ~~policy~~ redistributinal measures and appraising their economic, social and political effects.

In addition to obtaining more data on the true picture of income distribution, we need to investigate in greater depth and breadth the underlying causes and their relative importance.

Also, we hold the view that there has been no systematic appraisal in Chile of the effects of the various economic policy measures taken with respect to income distribution; as a result, there have been no innovative policies designed to tackle more effectively the causes of the inequalities between and within the different socioeconomic groups.

Lastly, it is worth noting that income distribution is a research subject offering large economies of scale, seeing that it overflows into a multitude of fields such as foreign trade, employment, technology, agrarian economy, etc. We would therefore do well to go beyond a bare description. This is an indirect way of looking into other areas in greater depth.

In the light of these comments, we now describe the research fields that the Economic Institute of the Universidad Católica wishes to cover.

I. Project 1. Empirical Data

The aim is to obtain the most detailed information possible on the key characteristics of the distribution of personal, family and factor income in Chile.

The existing data on income distribution in Chile are inadequate from the standpoint of reliability and because the series are incomplete. There are no homogeneous series suitable for making a systematic examination of income distribution trends, and the surveys available are relatively old. The most recent and extensive study is the one carried out by ECIEL; its first stage, covering the structure of consumption, is almost finished. The second stage, which consists of analyzing the data collected on income distribution, is currently being prepared.

This study is based on a "multi-purpose survey" made during one year (1968-1969) by the National Institute of Statistics (INE). Being national in scope, this survey covers both the rural and urban sectors. However, the ECIEL study is concerned only with the data on greater Santiago; the work is being done by the Economic Department of the Western Branch of the Universidad de Chile.

We therefore propose to construct an income distribution based on the survey as a whole. To make our findings comparable with the work of the same type being carried out under the auspices of ECIEL, we will use the methods designed by the latter (details on this methodology are available in the Summary of the ECIEL Seminars).

The work would consist of the following phases:

(a) Obtaining of data (Stage 3) from the National Institute of Statistics (INE policy would require us to buy the data). These figures are those of the original surveys, to some extent adjusted in the light of specific suggestions made by the ECIEL Consumption Group.

(b) Revision or correction process; even the Stage 3 data require additional revision, in particular to check for compatibility between incomes and the total of expenditures.

(c) Tabulation process

(d) Preparation of large numbers of tables, making maximum use of the information available. The tabulation will be carried out in such a way as to provide a fair description of income distribution and its different facets; and it would be detailed enough to serve as a basis for various subsequent research projects such as are proposed at the end of this document.

(e) Comparisons with results derived from earlier data. There are some previous surveys on income and expenditure: the most complete is the one for the year 1963-1969 (sic)\* made by the Economics Institute of the Universidad Católica and covering the country's four biggest cities. Although the comparisons would be limited to urban areas, they are important because it is from them that we can infer

---

\*T.N.: Presumably 1968-1969.

as  
aspects/such/the characteristics of shifts in consumption and the  
stability of the spending structure.

(f) Appraisals of alternative ways of measuring concentration,  
and discussion of their relevance, significance, limitations and implica-  
tions.

(g) An attempt will also be made to link factor distribution  
and personal distribution, using the data obtained. With these data  
it is possible to construct a factor distribution and relate it to the  
personal distribution obtained from them. On the basis of these distri-  
butions we will look into the feasibility of generalizations, using  
the least consolidated data from the national accounts.

This first part will have to cover not only the "incomes"  
variable (with all its variants) but also the "consumption" variable,  
so as to provide a detailed picture of the structure of consumption. This  
information is needed both as a basis for investigations aimed particularly  
at consumption and its relation to income distribution, and also as a  
means of checking the personal (family) data on incomes.

We are keen to work on this survey for two important reasons:

(a) To supplement the work undertaken by the Economics  
Department of the Western Branch of the Universidad de Chile, with the  
information available, so as to arrive at a meaningful and complete  
table of income distribution in 1969;

(b) And because this is not a good time to organize a new survey on incomes and/or expenditure in Chile. We feel that to be feasible such a survey would be subject to a series of limitations stemming from the methods of distribution of certain goods, the wild price fluctuations in some markets, the increase in autoconsumption and the probable wariness of families with respect to such a survey, which would mean biased replies, and so on.

Nevertheless, we do not rule out the possibility of partial surveys for certain limited purposes (e.g., control); but we feel the work should begin by concentrating attention on the existing information and then try to use the method of "patching together different available information". This procedure is absolutely necessary if we want to find out the characteristics of income distribution, say, at the beginning of 1973. It will enable us to take a step forward in the understanding of the effects of certain redistributinal measures (expropriation, price controls, discriminatory adjustments, etc.)

This project is also an essential precondition for studies on the factors governing income distribution and on the effects of public policies on such distribution, as described below.

II. Project 2. Effects of Foreign trade policies on income distribution

It often happens that policies aimed essentially at objectives other than income redistribution in practice have an appreciable effect on income distribution and on the structure of consumption.



As examples, we could mention the measures in the field of foreign trade, such as exchange and tariff policies, quantitative and qualitative controls on imports, export quotas, and so on.

Monetary and credit policy affects the supply of goods and services, the concentration of ownership, the level and system of prices, etc., all of which have important effects on the distribution of income and the pattern of consumption. But we rarely find studies which emphasize the redistributive effects of monetary and credit policy in countries with high inflation rates such as Chile.

This project would be centered on the two most important policies in the field of foreign trade: exchange policy and tariff policy. In Chile's recent history (1958-1970) these policies have been used for various purposes -- anti-inflationary measures, subsidies, distributional and fiscal measures, etc. At times they have been used for one of these purposes only, at others for several at once.

Whatever their original purpose may have been, we must recognize that these policies may have had an impact on the distribution of personal, factor and sector incomes; it is also possible that the use of these tools to produce specific effects on the distribution of, say, personal income has had an adverse effect in the sense of not achieving the end desired. But even though these tools may have to some degree achieved the redistributive objective, this has been at a cost which needs to be known. In effect, the combination of exchange policy (e.g.

devaluation) and tariff policy cannot be optimal from the standpoint of all the variables involved (production, consumption, tax revenues, income distribution, balance of payments, terms of trade, employment, competition and aggregate demand). To do this, there would have to be as many separate instruments as there are goals pursued, and each instrument would have to be directed at a single goal (even though it may directly or indirectly influence some or all of the others). We are therefore faced with an implicit statement of the problem of the appropriateness of using these foreign trade policies for redistributive purposes. In fact, these effects are open to question in a relatively integrated economy such as that of Chile and when tradeable goods (importable or exportable) represent <sup>a</sup> significant proportion of the expenditure of various groups.

Furthermore, the redistributive effect of these foreign trade policies is multidimensional. We therefore need to make the different redistributive planes explicit so as to interconnect the most relevant of them. Let us take the example of a fall in the real exchange rate:

(a) It will tend to reduce the prices of tradeable goods (when prices are elastic, even a fall in the nominal exchange rate can depress absolute prices) relative to the prices of domestic goods. At constant monetary income, consumers gain or lose differentially in relation to the importance that tradeable goods have in their consumption

and in relation to the case of substitution. This effect is redistributive of real income through purchasing power;

(b) It will tend to cause a worsening in the balance of payments (other things being equal). In Chile this tendency has been accompanied by the introduction of new or higher tariffs on certain imports. Consumers may lose differentially through the resultant increase in the prices of importable goods with respect to the prices of exportable goods and domestic goods;

(c) It will stimulate or slow down (jointly with the complementary policies) certain industries by altering in the relative level of effective protection in different productive sectors. The factors specific to these industries will gain or lose in terms of the changes in their effective protection. The non-specific factors may lose or gain depending on the relative intensity of their use in the industries stimulated or cut back by the foreign trade policies. All of this can affect both the factorial and personal distribution of income.

(d) It will cause a drop in the price of international assets (in terms of domestic goods) owned by residents;

(e) Lastly, it will redistribute income between the country which revalues and the rest of the world, at constant terms of trade (the terms of trade can also vary, increasing or decreasing the aforementioned effect).

This project will be centered on the family or personal distribution of income, attempting to indicate as precisely as possible the redistributive scope of the foreign trade policy\*. The empirical part will cover the period 1958-70. The study will consist of the following parts:

(a) Theoretical analysis of the redistributive impact of changes in the exchange rate and/or in the tariffs, after a careful review of the relevant literature. The model will take account of some considerations usually ignored in redistributive models: presence of money, relative immobility of certain productive factors, distinction between continuous and discontinuous adjustments to the exchange rate, etc.

(b) Descriptive analysis of the paths taken by the redistributive effects of changes in the exchange rate and changes in tariffs within the Chilean institutional context during the period covered. This qualitative analysis will make it possible to:

(1) propose a better model that will assist in quantifying relations between the use of tools and redistributive effects;

(2) supplement the quantitative analysis, which will not be able to cover accurately all the pertinent interrelations;

---

\*T.N.: This does not mean that we will not have to proceed via an analysis of sector and factor distributions, for the purpose of specifying more clearly the redistributive effects mentioned.

(3) make provision for certain institutional realities which make up the framework of analysis at a given time and influence the results sought after.

(c) Quantified analysis of the redistributive effects of exchange and tariff measures. The idea is to obtain a reasonably accurate appraisal of those effects, answering questions such as what direction they took, how large they were, whether they followed a trend or were erratic, and which sectors were most affected.

We will complete a series of tariffs and exchange rates for the period mentioned above, as well as consumption patterns for different times during that period (using the existing series and the one generated by the previous project) and the information available on the production cost structures of the goods consumed (by category). Also, a specific analysis will be made to determine who benefited from the exceptions (institutional, zonal, by product, seasonal, etc.) which were so common during that period.

**PETROLEUM ECONOMICS LIMITED****1, ARGYLL STREET, LONDON, W1V 2DS**

Directors: PAUL H FRANKEL WALTER L NEWTON TED WHITE CLIVE DALTON

WLN/bb

27th July, 1973

Mr. Thomas W. Berrie,  
International Bank for Reconstruction  
and Development,  
1818 H Street, N.W.,  
Washington, D.C. 20433,  
U.S.A.

RECEIVED

July 31/73  
Berrie

Replied - letter  
Aug. 2, 1973  
MISC-3-48

Dear Mr. Berrie,

I refer to your discussion with Ted White regarding the price of fuel oil to Turkey in 1980 in terms of 1973 dollars.

We believe that it is reasonable to assume that the Persian Gulf crude oil price in 1980 in terms of 1973 dollars will be of the order of \$5.00 per barrel. If you work on the hypothesis that the price of fuel oil in Turkey will be based on the price of crude oil at the Eastern Mediterranean, it is necessary to establish the freight differential between the Persian Gulf and the Eastern Mediterranean. Again, taking the cost of a ship ordered today and current operating costs, we show in the attached table the freight advantage of the Eastern Mediterranean over the Persian Gulf on the basis of alternative shipping routes.

We here believe that there is every reason to assume that by 1980 the Suez/Mediterranean (Sumed) pipeline will be in operation and set the price differential. On this basis the freight differential would be 50¢ per barrel. If we add this freight differential and the freight from the Eastern Mediterranean to Turkey to the Persian Gulf crude oil price we arrive at a delivered cost of crude oil to Turkey of \$5.66 (say \$5.70) per barrel.

It is our opinion that the price of high-sulphur fuel oil will continue to remain below the price of crude oil. At present the price of fuel oil in the Mediterranean area in domestic markets such as Italy is approximately 75% of the price of crude oil. If this differential is maintained, which we believe to be a reasonable hypothesis, the price of high-sulphur fuel oil in Turkey can be estimated at \$4.25 per barrel.

cont.....

Mr. Thomas W. Berrie.

27th July, 1973

I shall be out of town on Monday and Tuesday morning of next week but if you have any questions with regard to this exercise please telephone me Tuesday afternoon (July 31st) or Wednesday afternoon (August 1st).

Best regards.

Yours sincerely,

*Walter L. Newton*  
W. L. Newton

Alternative Bases for Assessing the Cost of Kirkuk Crude Oil  
Delivered to Turkey in 1980 at 1973 Constant Prices

A. Basic Assumptions:-

Crude Oil Price f.o.b. Persian Gulf \$5.00 per bbl.  
 Tanker operating costs (incl. 8% dcf return)  
     250,000 dwt - W65  
     90,000 dwt - W85

B. Alternative bases for establishing freight differential as compared with Persian Gulf for assessing price premium in Eastern Mediterranean

	<u>Worldscale 100</u>	<u>Freight Cost</u>	
	<u>\$/ton</u>	<u>\$/ton</u>	<u>¢/bbl</u>
(i) 250,000 dwt PG-N.W.Europe(via Cape/Cape)	9.77	6.35	
less 90,000 dwt East.Med.-N.W.Europe	3.52	(2.99)	
		3.36	46
(ii) 250,000 dwt PG-S.W.Europe(via Cape/Cape)	9.30	6.05	
less 90,000 dwt East.Med.-S.W.Europe	1.98	(1.68)	
		4.37	60
(iii) 250,000 dwt PG-Suez	3.07	2.00	
Sumed pipeline charge		1.75	
90,000 dwt Alexandria-N.W.Europe	3.46	2.94	
90,000 dwt East.Med-N.W.Europe	3.52	(2.99)	
		3.70	51
(iv) 250,000 dwt PG-Suez	3.07	2.00	
Sumed pipeline charge		1.75	
90,000 dwt Alexandria-S.W.Europe	1.87	1.59	
90,000 dwt East.Med-S.W.Europe	1.98	(1.68)	
		3.66	50
(v) 250,000 dwt PG-N.W.Europe(via Cape/Suez)	7.94	5.16	
Canal tolls		0.45	
90,000 dwt East.Med.-N.W.Europe	3.52	(2.99)	
		2.62	36
C. <u>Freight Eastern Mediterranean to Turkey</u>			
90,000 dwt East.Med-Turkey	1.39	1.18	16

Port basis: Persian Gulf-Ras Tanura, Eastern Mediterranean-Tripoli  
 N.W.Europe-Rotterdam, S.W.Europe-Fos, Turkey-Izmit

Petroleum Economics Limited

July, 1973



July 27, 1973

Dr. Mauricio Schulman  
Secretario de Financas do Estado de Parana  
Rua Dr. Marici, 915  
Curitiba, PR  
Brazil

Dear Dr. Schulman:

I would like to express my deepest appreciation for the excellent reception I received from all involved during my brief visit to Curitiba. This was extraordinary in normal circumstances. It was very much more so given the tragedy which befell the State the day prior to my visit.

I was, in addition, most encouraged to find that there was a high degree of receptivity for the study we have proposed, as well as a very thorough understanding of what it can, and equally important, cannot accomplish. On the basis of this appreciation and a similar reception in Sao Paulo, I am going to recommend as you suggested, that Mr. Skillings seek the agreement of your national government (Ministry of Planning and Housing Bank) to the effect that these studies should be conducted commencing sometime during the first half of calendar 1974.

Once the agreement of the national government has been obtained, I shall begin to correspond with you concerning the scope of the study and requirements for its execution. I would currently expect that this "planning" stage would culminate sometime towards the end of this year or the beginning of next with an agreed program of work and scheduling of the research mission.

Warm personal regards.

Yours sincerely,

Douglas H. Keare, Chief  
Urban and Regional Economics Division

Cleared & cc: Mr. Senner

DHKeare/gc

OP-RESEARCH

July 27, 1973

Mr. Keith Shaw  
Administrative Director  
Overseas Consultancy Service  
30 Millbank  
London SW 1P 4RD  
England

Dear Mr. Shaw,

Research Project  
Standards of Urban  
Electricity Distribution

I refer to our telephone conversation of July 24, 1973. I trust that you have by now received the Contract for the Review Paper and the subsequent trip to Washington, etc.

I look forward to receiving the first draft of the paper early in August. I would confirm my agreement with you that it is important to keep the team working as continuously as possible, and that it is necessary to await Mr. Boley's return from Russia before we have our meetings in Washington. I am, therefore, working to the following time-table, which we briefly discussed over the telephone.

Following the receipt of the first draft of the Review Paper early in August I will circulate a copy to my colleagues in Washington, giving you comments by the middle of August. I am reserving at least two days of my stay in London during September for discussions with the team and helping them work-up the Terms of Reference for the State-of-the-Art Paper. Would Wednesday, September 5 be a convenient day for the first discussions?

With respect to the discussions in Washington I am working to the schedule of Messrs. Boley and Prior visiting Washington for discussions which would commence on October 8; visiting a local utility; finalizing Terms-of-Reference for the State-of-the-Art Paper; visiting two of our Latin American Borrowers in the period October 14 through 18; and returning to England about October 18.

Trusting that this program is satisfactory to you,

Sincerely yours,

T. W. Berrie  
Power Economic Advisor  
Public Utilities Department

cc: Messrs: Ray, Dunkerley, Willoughby, Sheehan,  
Rovani, Howell, Friedmann, Bateman, Berrie  
TWBerrie: jr

Files

*OP - RESEARCH*

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE  
CORPORATION

**OUTGOING WIRE**

TO: O. LAFOURCADE  
ANCHORAGE HOTEL

DATE: July 25, 1973

CLASS OF  
SERVICE: LT

*179*

COUNTRY: ST JOHN'S  
ANTIGUA  
TEXT: WEST INDIES  
Cable No.:

FOR PURCHASING POWER PARITY EXERCISE PLEASE COLLECT FOLLOWING INFORMATION  
FOR EACH ISLAND YOU VISIT FOR 1970 STOP APPARENT VOLUME CONSUMPTION ENERGY  
COMPRISING COAL PETROLEUM NATURAL GAS AND ELECTRICITY STOP APPARENT VOLUME  
CONSUMPTION STEEL PRODUCTS IN CRUDE STEEL EQUIVALENT UNITS STOP APPARENT  
VOLUME CONSUMPTION MILK PRODUCTS IN RAW MILK EQUIVALENT UNITS STOP APPARENT  
VOLUME CONSUMPTION CEMENT STOP APPARENT VOLUME PRODUCTION RAW MILK STOP  
NUMBER TELEPHONES IN OPERATION STOP NET VALUE EXTERNAL BALANCE GOODS AND  
SERVICES STOP

REGARDS

CHERNICK

**NOT TO BE TRANSMITTED**

AUTHORIZED BY:

NAME S.E. Chernick

DEPT. Policy Planning & Program Review

SIGNATURE *S.E. Chernick*  
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

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DEPT

С.Б. Телекомуникации

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NUMBER TELEPHONES IN OPERATION STOP NEW AUTOMATIC EXCHANGE GOODS AND  
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CONSUMPTION ELECTRIC PRODUCTS IN GRADE STREET EQUIPMENT UNITS STOP VARIOUS  
COMPARING COST BENEFIT FROM AND ELECTRICITY STOP VARIOUS ACTIONS  
FOR EACH ISLAND FOR AT THE FOR TOL STOP VARIOUS ACTIONS CONSUMPTION ENERGY  
FOR PURCHASING POWER PARTLY EXERCISE PLEASE COLLECT FOLLOWING INFORMATION

Copy No:

TEXT

WEST INDIES

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VIETNAM  
SI JOHN, S

SERVICE IN  
CLASS OF

DATE: JULY 22, 1953

VICTORVILLE HOTEL  
TO: O. FALGOUTE

OUTGOING WIRE

ASSOCIATION

INTERNATIONAL DELEGATION

RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL BANK FOR

COOPERATION

INTERNATIONAL FINANCE

*[Handwritten scribbles]*

O.P. Kennedy

July 24, 1973

Professor Leonard Joy  
Institute of Development Studies  
University of Sussex  
Andrew Cohen Building  
Falmer  
Brighton BN1 9RE  
ENGLAND

Dear Len:

As I have told you by phone, we are moving ahead on the nutrition research planning exercise within a little different administrative set-up. I think the ADC Workshop arrangement will give us a better chance to concentrate on getting substantive advice sooner. For further explanation, my memo to file is attached.

The Bank will extend to you a formal contract for consultancy. In the meantime, I am attaching a copy of your terms of reference.

I am also attaching the agendas of two related workshops and the summary of the Stanford meeting. Our subsequent exercises should start where these prior discussions left off.

I am also attaching for your information a copy of letter received from Paul Strasburg with my response.

Since I have not heard from you again, I take it that you cannot make it to the meeting we have scheduled in New York on August 1. I apologize for the short notice, but it is the only time when we could get Weisblat and Milner together. Jim Levinson will have to report to you the outcome of the meeting and then you will be able to coordinate your work with him and schedule getting together when necessary later on.

Yours sincerely,

Shlomo Reutlinger  
Chief  
Rural Development Division  
Development Economics Department

Enclosures  
SReutlinger:coh

O.P. - Research

Mr. K. C. Zachariah

July 24, 1973

T. King

Terms of Reference. Visit to the University of Pennsylvania, Philadelphia.

On 27 July you will go to Philadelphia and discuss with Professor Richard Easterlin of the University of Pennsylvania your proposals for a collaborative research on the inter-relation between population pressure, fertility and migration.

Cleared with and cc: R. Gulhati

KCZ:mw

July 24, 1973

Mr. G.F.L. Hariss  
4707 W. Braddock Road  
Alexandria, Va. 22311

Dear Mr. Hariss:

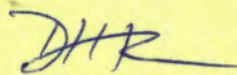
I would like, hopefully for your benefit, to elaborate a bit further on our telephone conversation of about three weeks ago.

I had read the description of Business Modeling Structure prior to our discussion; however, I have now had it read by two of our more econometrically inclined staff members. We all concur that the program could perform a useful role in the Bank's research into the dynamics of growth in developing countries--but at a later rather than an earlier date. This is primarily because our approach to research, while by no means fully elaborated, has so far taken the form of micro, intrasectoral investigations into particular aspects of urban life, e.g., urban public finance, housing and land use.

In the future, as our knowledge of development processes increases, we should be in a position to use explicit models (general equilibrium or otherwise) to tie the strands together. These models would investigate intersectoral linkages in an institutional context, so that policy implications for the Bank can be derived from the models' results. I would estimate that this stage of our work is still a year or two away. By all means we should get together then. In the meantime, we would like to keep the materials you sent us on file, in case temporary assignments arise in which you could be of help to us; in addition, I suppose by now you have made contact with Mr. Muller as I suggested.

Thank you again for giving us an appreciation of the range of services at your disposal.

Yours sincerely,



Douglas H. Keare, Chief  
Urban and Regional Economics Division

DHKeare/gc

July 23, 1973

Ms. L.P. Baillie  
Secretary to Director  
Centre for Transport Studies  
Granfield Institute of Technology  
Granfield  
Bedford  
England.

Dear Ms. Baillie:

It was a great pleasure to meet with your Dr. David Copsey on his brief visit to Washington and to learn more about your transport research program.

I hope that either myself or someone from our Research Division would be able to visit your Research Institute in the near future to look further into the possibilities of a cooperation between our institutions. In the meantime we would very much appreciate receiving the following reports:

S. Coughlin  
An appraisal of the rigid airship in the  
UK freight market  
Granfield GTS Report 3 (1973)

I A Alston, J T Hayden and J M Clark  
Magnetic suspension and guidance of high  
speed vehicles  
Granfield Memo 70 (1972)  
Reprinted in Hovering Craft and Hydrofoil,  
August 1972

S G Lennox and J M Clark  
Urban transport systems analysis  
Proc. Symp. on Compatibility of Transport Systems,  
Loughborough (1969)

J M Clark and R A F Seaton  
Modal split - a general approach  
PTRC Urban Traffic Model Research Symp. (1970)



Ms. L.P. Baillie

-2-

July 23, 1973

J W Perdue  
British hovercraft in commercial operation  
Proc. Universities Transport Study Group Conference,  
Sheffield (1971)

J W Perdue  
The assessment of freight airships - an  
introduction  
Proc. Universities Transport Study Group Conference,  
Dundee (1972)

R A F Seaton  
Transport and urban planning  
Second Advanced Studies Institute in Regional Science  
Karlsruhe (1972)

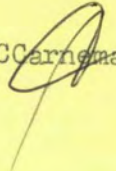
R D Micklethwaite  
The role of assessment in the transport decision  
making process

Thanking you in advance for your kind attention to this  
request.

Yours sincerely,

Curt Carnemark  
Advisor Policy Implementation  
Transportation Department

cc: Messrs. Harral  
Sud

  
CCarnemark:sj

July 23, 1973

Letter No. 270

Dear Gil:

We have been following up on your cable 289 regarding the use of your allocation of consultant's funds of US\$18,000 for David Wall's research project and his contribution towards next year's economic report.

David has now prepared a draft note (two copies of which are attached) outlining the scope of his proposed study as well as the work program. You will see that there are several uncertainties and points requiring clarification. In particular, at this stage David obviously does not know exactly what you have in mind for his contribution to the 1974 economic report. It is our general understanding here that his contribution would consist of a review of performance of selected non-traditional exports and a critique of export policies as they affect these commodities, but this is clearly subject to your needs. The results of David's project would, of course, not be fully available by early next year, but he is confident there will be sufficient completed by then for the purposes of a contribution on the above lines to the report. You will also see that in the way the project is now proposed, the February-March period in Delhi for the purposes of the report will fit in well with the other activities and requirements of the study. However, we wait to hear from you on your reactions to the study as now proposed and on the particular section you would wish David to write for the report.

It appears that there is still a slight chance that the Research Committee will be prepared to finance this project. We think this is highly unlikely, but you may wish to start thinking about alternative uses of the funds just in case this comes about. There should be a final answer on this within the next six weeks or so, and we will let you know as soon as the decision has been taken.

Once we have got your comments on David's proposals, David will be in touch with you in connection with the organization of the local consultants and related matters.

Yours sincerely,

N. S. Segal

attachment

Mr. William M. Gilmartin  
Resident Representative  
World Bank Resident Mission  
P.O. Box 416  
New Delhi, India

Cleared with and cc: Messrs. Prakesh, Wall  
cc: Messrs. Kraske, Street

NSSegal:cdg

O.P. - Research  
R.P.O. 293

23 July, 1973

Mr. A. M. Mercer,  
Program Manager  
Lilongwe Land Development Program  
P.O. Box 259  
Lilongwe,  
MALAWI

Dear Andrew,

As Mrs. Lele is leaving the Bank very shortly to go on home leave, I am writing on her behalf as well as my own to express our mutual concern regarding arrangements for the LLDP follow-up study.

Both Mrs. Lele and I put a great amount of time, thought and effort into preparing the follow-up proposal for submission to the Bank's Research Committee; and, since I left the Bank late in May, Mrs. Lele has expended much energy and time in explaining and promoting the proposal at various stages of the review procedure. We were both highly gratified when the Research Committee reached its conclusion to fund the study. As a result of our work to date, both on the review and the proposal for the follow-up study, there is now an enormous interest at the Bank in the work we have planned to include in the full study, particularly in research on certain aspects of the credit program.

Before the proposal was submitted, we were several times assured by Bob Reader that the data we require for the follow-up study were available in a useable form at LLDP and that they required only certain editing and preprocessing by someone who knows how they were collected before they could be analyzed. By way of illustration, I refer you to Para. 2(b) and 5(c) of Reader's memo of 5 June to Willem Brakel, a copy of which I have enclosed. To a large degree, we based our proposal upon such assurances and, further, to ensure that the data would be handled properly we arranged for Reader to be at the Bank for three weeks in September to perform the preprocessing.

Our concern stems from the fact that Reader has recently written to me (a copy of his letter is enclosed) stating that it would be "totally of no value" to send data from the Farm Management Studies (FMS) to the Bank for analysis on the grounds that the data have not been edited and cannot be edited without reference to the original schedules, which--as original records--must remain at LLDP. Based on Reader's assurances, Mrs. Lele and I have heavily committed ourselves to using the FMS data and are very disturbed by the possibility that they may not be available. Moreover, it is difficult for us to accept that data collected in 1969/70, 1970/71 and 1971/72 have not yet been edited in preparation for analysis. We should also like to use data from the 1972/73 Yield Study if they can possibly be made available, though here time is a more valid constraint.

23 July, 1973

-2-

I have written to Reader asking if there is any possible way the FMS data can be utilized and have also solicited Jim Scott's opinion. Copies of these letters are enclosed for your information.

Mrs. Lele and I should be most grateful if you could explore with Jim Scott the question of our making meaningful use of these data and the possibility of getting the necessary cards and supporting documents to the Bank by the first week in September. As I mentioned to Jim, we may be able to do a large part of the analysis of the 1972/73 yield data for him, thereby reducing somewhat the Evaluation Section's backlog of unanalyzed material.

Mrs. Lele and I feel that we have been put in something of an awkward position regarding data availability for the follow-up study, and we should certainly appreciate any suggestions you might have as to how we might best resolve this matter.

In Mrs. Lele's absence, I am handling the arrangements for the follow-up study, and I shall be at the above address through the third week in August. I anticipate arriving in Lilongwe around the first week in October and shall look forward to seeing you then.

Best regards.

Yours sincerely,

B. H. Kinsey

Enclosures (4)

cc: Mrs. Uma Lele, IBRD  
✓ Mr. Hans A. Adler, IBRD  
Mr. P. J. Scott, Lilongwe.

FOOD RESEARCH INSTITUTE  
STANFORD UNIVERSITY  
STANFORD, CALIFORNIA 94305

*Mr. Walton*  
*Would your Division*  
*please follow up*  
*on this*  
*H.A.K.*  
*8/1/73*  
RFD 293  
Cable: FOODRES STANFORD

Telephone: (415) 321-2300

July 23, 1973

Mr. Hans A. Adler  
Projects Department  
Eastern Africa Region  
IBRD  
1818 H Street, N.W.  
Washington, D.C. 20433

Dear Mr. Adler:

Following discussions with Mrs. Lele last week on the Lilongwe follow-up study, I am writing to inform you of an unanticipated development in regard to the availability of data for the study.

Both in discussion with Mrs. Lele and in his memo of 5 June to Mr. Brakel (in response to your memo to Mr. Ray), Mr. Reader, former head of the LLDP Evaluation Unit, has put forth assurances to the effect that data at LLDP "have been stored for the express purpose of enabling the [Evaluation] Unit, or any authorized outside body, to conduct additional research should the need so arise." The implication in this statement is that the data have been used once for research purposes and are available for further research. In a letter to me dated June 26, however, Reader states that "it would be totally of no value" to send to the Bank certain data central to the purposes of the follow-up study, as the data have not yet been given the necessary preliminary processing which would permit meaningful analysis to be done. Reader suggests instead that the Bank send a team to Malawi for two months to put the data in a condition suitable for analysis.

In short, claims have been made, which are now disputed, as to the availability and utility of data. As the survey Reader refers to in his letter to me has been repeated annually since 1969/70 and as none of the data collected in the annual surveys appear to have been analyzed, much less prepared for analysis, this would seem to invalidate Reader's statement in Para. 2(b) of the Brakel memo that only one survey remains unanalyzed.

This unexpected revelation puts the follow-up study in a very awkward position. I am attempting, however, to ascertain exactly what data are now available and can be made usable so as to maximize the value of the follow-up study, and I shall keep you informed of further developments. For your information, I am enclosing copies of Reader's letter to me, my response, and of a letter to Mr. Mercer, Program Manager at Lilongwe, expressing my concern.

Yours sincerely,

*B. H. Kinsey*  
B. H. Kinsey

Enclosures (3)  
cc: Mrs. Lele

RECEIVED

1973 JUL 30 AM 9:38

TO: [Illegible]

FROM: [Illegible]

SUBJECT: [Illegible]

[Illegible]

[Illegible]

c) Does general equilibrium become unmanageable if multiple centers of employment are allowed for? If so, of what value are models that assume all work is in the CBD?;

d) How much of the demand for housing in urban areas can be explained by a market-segmentation approach, one possible cause of which is discrimination? (Discrimination in housing in cities of developing areas may be an important issue confronting the Bank in urban lending in the 1970's.)

4. The authors (p. 487) well describe the high hopes put on urban simulation as a planning device and the ensuing disillusionment with it. Gravity models, perhaps the ultimate in mindless determinism, are giving way to "narrower models designed to reveal the impact of well-defined policies on a few key variables." This describes a major goal of the Division's research program as well as the current evolution of the discipline.

*OF*  
OFGrimes:ap

Mr. Douglas H. Keare, ECDRB

July 23, 1973

Orv. Grimes, ECDRB

Comment on "A Survey of Urban Economics" by Gerald S. Goldstein and Leon N. Moses

1. First, for our purposes, it is unfortunate that the authors ignore at least half of the literature related to urban economics over the last fifteen years -- the portion they classify as "analysis of problems such as congestion, discrimination in housing and employment, and the fiscal difficulties of cities." Their concentration on growth and simulation models to the exclusion of all else makes a mockery of the title of their article.

2. Be that as it may, the authors' generalizations about salient features of modeling urban and regional systems are relevant for the Division's work if only because they point up the underlying similarity of structure between developed and developing cities. Increasing returns to scale over a relevant range, factor mobility (though imperfect) among regions and between urban and rural areas, and transport costs related to the wage rate so as to include value of time in work trips are all elements of urban form everywhere in the world. Of course, urban areas of developing countries have their own characteristic features, notably severely distorted factor markets dominated by lower than equilibrium prices for capital and foreign exchange and higher than equilibrium prices for industrial labor. Nothing in our work so far, however, has led us to conclude that the basic processes differ in fundamental ways.

3. This said, do we then conclude that theory and method are substitutable in advanced and developing contexts? The answer is probably yes. For example, Muth's and others' discussions about the appropriateness of a negative exponential form for the land price-distance function (p. 477) has been paralleled for developing areas by work in the Division showing that this function also provides a good explanation for variations in land price in Kinshasa (see Appendix, Zaire Urban Sector Survey Report). Results for Abidjan will be available shortly. There is a question, though, as to how deeply we want to enter into the types of approaches outlined in the article. Evaluation of this question is not easy since the article does not deal with the literature thematically. It merely synthesizes each major contribution instead of analyzing the assumptions and postulates common to several approaches. The article might have treated questions such as:

a) How necessary is the assumption of constant marginal transport costs in models of urban areas?;

b) How can an urban model predict individual behavior without specifying a form for the utility function? Is this form (or any form) realistic?;



## OFFICE MEMORANDUM

D P Kassarabiy

TO: Files

DATE: July 27, 1973

FROM: Frank Vibert

SUBJECT: Israeli Export Credit Guarantee Proposal -  
Comments of New York Financial Institutions

1. This note records the main points made to me by the financial institutions (Morgan Guarantee, Manufacturers Hanover Bank, First National City Bank) I visited in New York on the afternoon of July 24 and on July 25.

Use of IBRD Guarantee Authority

2. The market for medium to long term credit instruments between developing countries depends on the particular transaction and particular countries involved. A Bank guarantee on the paper could make the market much more like the short-term trade financing market in Bankers acceptances where what is important for the marketability of the instrument is the presence of a prime signature.

3. However, the general feeling was that the capital goods exporting countries which would be affected by the Israeli proposal are the more creditworthy developing countries which can borrow as much as they want directly in the market and certainly against any expected export proceeds. In present conditions the market is extremely competitive and a margin of 2% over the cost of funds would be considered a very good margin even for an LDC borrower. The effect of an IBRD guarantee might be to reduce the margin by say 1% (to which would have to be added any guarantee charges).<sup>1/</sup>

4. If the Bank were to guarantee export credit paper it would be important to keep the instrument simple. Multiple guarantees beyond say the guarantee of the Central Bank of the importing country and IBRD itself could impede marketability. There was a general feeling that a guarantee by a Regional Development Bank and the exporting country would be unnecessary. It would also be important that the coverage of IBRD's guarantee be very clear, preferably covering both political and commercial risks. A partial guarantee, say to cover only political risks, would invite legal questioning, and a discounting Bank would have to look beyond the IBRD guarantee in order to assess the commercial risks. Both factors would weaken the effect of the guarantee.

---

<sup>1/</sup> Manufacturers Hanover Bank pointed out that there would be a very heavy administrative burden in operating a guarantee scheme. Quite apart from project appraisal and country creditworthiness analysis there would be the whole question of the class of goods being financed and the terms being offered which in practice involved a very considerable burden. This would be an important consideration if a guarantee fee were related to administrative costs.

July 27, 1973

5. Of the institutions I talked to, Morgan Guarantee was the most positive about the usefulness of the guarantee. First National City Bank was sympathetic and Manufacturers Hanover Bank was very skeptical. Both of these latter two institutions thought that under current market conditions where developing countries have direct access to the market under very competitive conditions, the Bank would have to consider carefully whether direct lending to facilitate exports would not be more useful than using the guarantee authority.

6. Neither Morgan Guarantee nor First National City Bank seemed to think that guaranteed obligations of the Bank would have any side effects on the Bank's direct obligations. On the other hand, Manufacturers Hanover thought that there definitely could be an adverse impact unless the Bank, possibly acting through IFC, took steps to ensure orderly marketing of the guaranteed instruments, supporting the market if necessary.

7. It was clear from my conversations that these institutions are very much influenced by the current situation of abundant global liquidity. A tight Euro-market could both affect the access of developing countries to the market and increase the cost margin between prime borrowers (say Exxon) and developing countries. The effectiveness of the Bank's guarantee would be correspondingly much greater both in reducing costs and improving the availability of finance. All of the institutions assumed that they would be using Euro funds for these credits.

#### IFC Consortium

8. I sounded out how these institutions reacted to the idea of an IFC organized consortium of Banks. Morgan Guarantee felt IFC participation could be useful in providing a multilateral umbrella for private investors. However, both Manufacturers Hanover Bank and the First National City Bank reacted negatively to the idea. They felt that the IFC would not provide an umbrella since sophisticated private institutions would be relying on their own judgements about the creditworthiness of a country and some countries for example, Chile, seemed keener to preserve their standing vis-a-vis private creditors than they were against official. In general, there was much less interest in the IFC scheme than in the idea of the Bank using its guarantee power since they did not see what improvement IFC could possibly bring to the market.

cc: Messrs. Stern  
Haq  
Qureshi  
Kuczynski  
Hulley  
Swaminathan

FVibert:ms

OP-RESEARCH

July 20, 1973

Miss P. Ady  
St. Anne's College  
Oxford OX2 6HS  
England

Dear Professor Ady:

Philip Hayes has asked me to reply to your letter of June 29. Perhaps you are aware that he is leaving the Bank to take up an appointment with the Commonwealth Secretariat in London as Director of their Trade and Finance Division.

Walter Labys visited us last week and we discussed the desired revisions in your research proposal on "Commodity Orientated Planning Model for Malaysia". You are perhaps aware that the Bank has requested Alan Brown to convene a seminar in the first week of October on effect of exchange rate changes and inflation on the prices of primary commodities exported by the developing countries. I hope to see you at that time and go over the research proposal so that it can be reformulated to meet the queries raised by the Research Committee.

With regards,

Yours sincerely,



Shamsheer Singh  
Chief  
Commodities & Export Projections Division  
Economic Analysis & Projections Department

cc: Messrs. Chenery, Tims, Carter

SSingh:jmca

## OFFICE MEMORANDUM

TO: Mr. Douglas H. Keare, Chief, URED, DED

DATE: July 20, 1973

FROM: Anna Maria Sant'Anna, URED, DED

SUBJECT: Progress Report: Housing Needs and Priorities StudyA. The Mexican case studies

1. From my telephone conversation with Mr. Tomasz Sudra yesterday, I obtained information on the progress of the housing study, which indicated that the study is going well and that an input from the Bank will not be necessary before the Fall. Mr. Sudra informed me of the following:
- (a) From June 11 to July 20, he has accomplished: (i) the review of the findings from three different household sample surveys, namely, the Municipal Government's, the National University's, and the American University's study, comprising a total of about 600 cases, to establish household criteria for the selection of case studies; (ii) the review of information pertaining to 35 localities within Mexico City metropolitan area, to establish physical criteria for the selection of case studies; (iii) the recruitment of 10 research assistants for the field work (these assistants are Mexican architects with MA degrees); (iv) establishment of additional criteria for selection of case studies, and the final selection of household/dwelling cases to be included in the research.
- (b) The period from July 23 to September 21, will be dedicated to the undertaking of field work on the 25 case studies planned.
- (c) By late September or early October, 1973, there will be a meeting at the Bank to decide the processing system to be adopted and to evaluate the preliminary conclusions from the field work. Mr. Sudra will then remain in the US for 5 to 10 days, consulting for the Bank.
- (d) The months of October and November 1973, will be devoted, in Mexico, to the processing of data and to the preparation of Report No. 1, due December 1st.

B. Prof. John Turner's participation

2. In addition to his participation on the October meeting, the Bank might consider requesting Prof. Turner to give an early input to the preparation of Report No. 2, due June 1974, by the latter part of November 1973 (about 5 mandays). Decision on this and on the subsequent participation of Prof. Turner in the project, should be reached at the October meeting.

C. Budget

3. A total of \$7,900 has been allocated for field work in Mexico City, payable to Mr. Tomasz Sudra. Of these, \$3,900 has already been paid. Mr. Sudra expressed his concern about having the balance paid off by the end of October. This arrangement would interfere with the payment of research assistants in August and September. His proposed disbursement schedule is: four payments of \$1,000 each, on the following dates - August 13, September 14, October 15, and October 31. A decision on this matter should be reached as soon as possible to allow Controller's to make the necessary changes in time.

## OFFICE MEMORANDUM

TO: Mr. Douglas H. Keare, Chief, URED, DED

DATE: July 20, 1973

FROM:

SUBJECT:

- 2 -

D. Rio de Janeiro sample and case studies

4. The attached letter to Mr. Barney Rush dated July 19, 1973, states in detail the decisions made about the Brazilian portion of the housing research. Basically, the Bank has agreed with Mr. Rush, to receive four rather than six case studies from Rio, plus the cross-tabulations of a 300 cases sample survey he is presently conducting in the conjuntos (public apartment housing for lower income groups). Mr. Rush was invited to joint the October meeting at the Bank, and was asked to discuss then his tabulation plans for the sample survey data.

AMSant'Anna: ams

CC: Mr. John Turner

Central Files ✓

*O.P. Karamchand*

Mr. Bruce Herrick

July 20, 1973

Douglas H. Keare *DHK*

Mexico: Terms of Reference

You will proceed to Mexico City for the week of 29 July 1973 to 4 August 1973 for the purpose of exploring the availability of geographically disaggregated data connected with the forthcoming urban survey mission to Mexico, scheduled for January.

Cleared with & copy: Mr. Gulhati  
Mr. Venkateswaran  
Mr. Scott

DEKKeare/gc

00-RESARCII

Messrs. J. Warford and R. Schkolnick

July 20, 1973

Y. Rovani

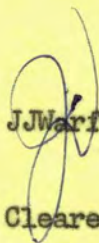
Costa Rica Telecommunications Research Study  
Terms of Reference

1. Mr. Schkolnick, accompanied by Mr. Littlechild, a consultant whose participation is detailed in a separate terms of reference, should arrive in San Jose on July 29. Mr. Warford will join the mission on August 2nd.

2. The object of Mr. Schkolnick's mission is twofold. He will collect further data on his study of network costs and revenues, discussing with ICE engineers questions relating to traffic measurements and operating and maintenance costs. He will also participate in discussions on the proposed rural telecommunications research project.

3. Mr. Warford's will be primarily concerned with the rural telecommunications project. Based on groundwork prepared by Messrs. Schkolnick and Littlechild, he will explain to faculty members of the University of Costa Rica and ICE the nature of the problem as seen by the Bank, and discuss the broad outline to be followed in the research study. He will encourage co-operation between ICE and the University in the formulation of a research program, and assess their capability in carrying out the study with a minimum of supervision from Bank staff.

4. The mission will return to Washington on or about August 8, when a back-to-office report will be prepared.

  
JWarford:pjk

Cleared with & cc: Mr. Rovani  
Mr. Vasudevan  
Mr. Flood (LAC)

July 20, 1973

Miss Anastasia Shkilnyk  
Department of Urban Studies  
MIT  
Cambridge, Massachusetts

Dear Anastasia:

Enclosed you will find the Terms of Reference for NETWORK's participation in the monitoring and evaluation of site and services projects for the period July 1, 1973 - December 31, 1973.

I spoke with John Turner on July 18, and we agreed that the next meeting of NETWORK representatives with the Bank staff would occur on October 1, 1973, to discuss these Terms of Reference and a schedule for the fall. We would hope that John Harris and John Turner could attend that meeting, which will be primarily focused on organizational concerns.

As soon as I hear from Dakar, I will let you know of the current state of affairs.

Sincerely,

*MAC*

Michael A. Cohen  
Urban and Regional Economics Division  
Development Economics Department

MAC:ap



Mr. Hollis B. Chenery  
(Thru Mr. Ravi Gulhati)

July 19, 1973

Douglas H. Keare

Ongoing Studies of Urban Areas

Attached is a list of studies of metropolitan areas presently underway under the supervision of the Urban Projects Department (i.e., the inventory you requested a month ago). As all of the studies are being performed by consultants, estimating the number of man-hours devoted to them or their "degree of complexity" would be hazardous. As it is, we have had to verify rather laboriously many bits and pieces of information since the data sheets provided by the UPD were not always current. Nevertheless we feel that the list embodies the most up-to-date information on these studies.

DHKeare:gc

<u>STUDY TITLE</u>	<u>CITY</u>	<u>NATURE OF STUDY</u>	<u>TOTAL COST</u>	<u>BANK/IDA FINANCING</u>	<u>DRAFT FINAL REPORT</u>	<u>NATURE OF BANK INVOLVEMENT</u>
1. The Automobile and Urban Transport	-	Urban transport	\$ 25,000	\$ 25,000	5/73	Research project, aimed at investigating role of automobile in urban areas.
2. Site and Services Monitoring	Dakar (two others)	Urban settlements, general urban	\$461,000 <sup>1/</sup>	\$461,000 <sup>1/</sup>	Dakar: 9/76	Evaluate existing site and services projects: support site and services project design.
3. Criteria and Pilot Project Study	Dakar	Evaluation of criteria for upgrading/eradication of slum areas			3/74	Attached to Credit 336-SE (Site and Services Project)
4. Penetration Road/Urban Corridor	Amman	Urban transport	\$400,000	\$300,000	11/73	Attached to First Highway Project (Credit 262-10)
5. Urban Transport and Land Use Model	Istanbul	Urban transport, urban land use	\$3,300,000	\$2,300,000	-	To be considered as part of Istanbul Urban Development I (Board presentation 2/74)
6. Klang Valley Regional Planning Development Study	(Malaysia)	Regional development	\$460,000	- (UNDP)	3/73	Study reviewed 4/73 and consultants to complete additional work by 9/73. Detailed project preparation resulting from study in connection with 2nd. Highway Loan to Malaysia and others (FY 75)
7. Urban Transport Studies	Kuala Lumpur	Urban transport policies	\$540,000	\$540,000	12/73	Attached to Federal Highway Project (851-MA)
8. Mass Transit Study	Singapore	Phase I: urban mass transit Phase II: feasibility study of recommended system	\$596,800 \$460,000	- (UNDP) - (UNDP)	7/73 Not yet determined	Study expected to lead to projects in mass transit in FY 75 and FY 77
9. Transport and Urban Development	Abidjan	General urban	\$1 million	\$700,000	6/74	Study expected to lead to urban development project in FY 75
10. Transport Study (Phase I)	Teheran	Urban transport	-	\$1.6 million	7/73	Phase I study has been completed and is being reviewed by government and Bank
11. Transport Study	San Jose (Costa Rica)	Urban transport	\$720,000	- (UNDP) -(Government)	Phase I: 9/74 Phase II: not yet determined	Support traffic improvement and transport planning efforts
12. Urban Development Study	Bogota	General urban	\$1.6 million	- (UNDP) -(Government)	Phase I: 9/73	Study expected to lead to urban development project in FY 75

<sup>1/</sup> Provisional figures.

July 19, 1973

Mr. Maurice Curtis  
63 Carlton Mansions  
Randolph Avenue  
London W. 9.  
ENGLAND

Dear Mr. Curtis:

Air Transport Study

Thank you for sending us the drafts so far completed on your air transport study, which we have read with interest. By now you will have got our cable suggesting that you visit Washington during the week of July 23rd.

Your visit will give us the chance for a thorough review of your drafts, and to see those sections on which you are still working. In the meantime, we have the following general comments:


1. The Terms of Reference are extensive, and the resources to meet them limited to 15 manweeks. Care therefore has to be taken to focus very specifically on those aspects most relevant to the objectives of the study, particularly the operational needs of this department in identifying and appraising tourism projects.
2. The draft contains a number of judgements which would have added force if supporting data were summarized, or reference given to an appropriate annex.
3. A summary will be needed highlighting the study's main conclusions.
4. Whilst we agree that the draft should not be "padded" with out-of-date or irrelevant data, we would expect the final draft to contain the main reference material needed to support the study's conclusions.
5. We recognize that the question of costs and benefits of alternative aviation policies is an extremely complex one that cannot be easily generalized. We suggest that this question be approached in terms of the identifiable costs and benefits to airlines and airport

authorities as the result of the expansion of tourism, and the means whereby these may be properly captured in the appraisal of tourism projects.


I attach an annex containing some preliminary comments on the drafts so far received.

We look forward to seeing you in Washington shortly.

Sincerely yours,



James A. Simmons  
Chief, Division I  
Tourism Projects Department

Attach.  
AHayman:af .

AIR TRANSPORT STUDY

July 16, 1973

Preliminary Comments on Compliance with Terms of Reference, Drafts as Received at July 13, 1973

<u>Terms of Reference</u>	<u>Section of Draft Report Referring</u>	<u>Comments</u>
A. <u>A brief summary of world air transport</u>		
This section would provide a summary of general data and information as a background to the rest of the Study. It would include, inter alia:	Exhibit 1	The draft includes a useful list of main data sources on aviation, indicating their relevance to the study.
- Description of the different categories of passenger air transport operations, the ways in which they are competitive with or complementary to each other, and the roles they are likely to play in future tourism development.	C	This broad subject is generally adequately described. The extent to which scheduled and non-scheduled operations may be complementary might be elaborated somewhat. The scale factor, or point at which a tourist destination is well enough developed to attract charters should be discussed.
- Key statistics on trends in the development of different categories of air transport - globally by regions, and where appropriate, for major specific destinations.	A1	A further brief presentation of standard statistics might be helpful, perhaps with reference to an Annex.
- Identification of significant trends in principal international air fares and passenger (especially tourist) flows.		Reviewed in outline, and some significant conclusions drawn.
- Changes in the composition of world air transport fleets.	A4	Brief table to indicate increase in unit capacity of aircraft might be useful. Implications of fleet changes are of more interest than statistics.
- Critical review and comparison of a number of forecasts of future expansion of air transport, and of tourist travel by air.	A3	Not yet received. Summary of main forecasts is an important part of the study. Consultants' judgment is needed on the reliability (and performance where available) of the main forecasts.
B. <u>A review of international policies and agreements, influencing air transport</u>		
This would provide a description of:		
- International Conventions which control air transport operations.	B.1	Covered.
- International organizations which are directly concerned with air transport, and others whose responsibilities, and/or objectives, influence air transport operations.	B.2	Covered.
- The inter-nation agreements under which air services are permitted between countries.	B.3	Covered.
- Different types of national organizations which are responsible for countries' aviation policies and the licensing and regulation of air transport services.	B.1	Covered in outline. The section on specific countries, not so far received may be expected to outline the situation in each.
- The special role of IATA, and the emergence of IACA.	B.2	Covered in outline.
- Other inter-airline relationships which affect air transport development such as traffic-pooling, equipment-pooling, joint use of traffic rights, etc.	B.3	Covered in outline. Perhaps some specific examples might be helpful, but such information is presumably confidential.
- Trends in vertical and horizontal integration of air transport with other tourism operations such as hotels, tour operating and surface transport.	B.4	Treated in rather general terms. The significance of increasing integration to tourist developments might be further developed.

Terms of Reference

Section of  
draft report  
referring

Comments

C. The role of air transport in tourism development with special reference to the economics of air transport and air transport pricing policies

This section would review and comment on:

- Trends and changes in international air fare policies, and probable future developments.
- The methodology used for estimating the impact of air fare changes on traffic flows.
- Apparent disparities between air fare levels and probable reasons or justifications for these.
- Trends in different types of air charter operations and their impact on traffic flows.
- The economics of scheduled and charter international passenger services.
- The main factors which influence air transport total operating costs; disparities between different operations; and prospects for eliminating disparities and minimizing costs whilst generating reasonable profits.
- Possible conflicts between national air transport and national tourism policies.

C

Reviewed in outline.

Not received so far. Estimates of price elasticity of demand presumably feature largely in Traffic Conference discussions.

Reasons for disparities may be too various and accidental for a general view. Some discussions of air fare levels to specific countries should be included in the "countries" section (F below), not so far received.

Covered in general terms.

Further detail is needed, such as a further breakdown of airline (as opposed to aircraft) costs.

Further discussion would be helpful, particularly of the economics of small national airlines.

This important section needs some elaboration, and specific examples indicated in the "countries" section (F below).

D. Examination of the characteristics of, and trends in inclusive tour operations

This section would review and comment on:

- The different types of non-scheduled operations and their growth, with special reference to charter inclusive tours and new types of non-scheduled operations now emerging.
- International and national attitudes to non-scheduled operations, including IATA attitudes.
- The economics of inclusive tours by scheduled and charter carriers, to include:
  - The components of the selling-prices of inclusive tours, )
  - The factors determining the cost of the individual components.' )
  - The problems of competition and profit margins. )
  - Effect of vertical integration on inclusive tours. )
- The attractions of inclusive tour operations to the public, to the tour wholesalers, and to the other operators concerned.

C.2

Some discussion of (a) 'Gateway' charters, such as to Bangkok, feeding regional IT services, (b) fly-cruise, (c) "charter cruises" might be of interest to the extent that they are relevant to tourism to LDC's.

Covered in general terms.

D

Much of this information is confidential, but a more detailed analysis should be possible. A simple model might be developed whereby appraisal teams could estimate probable inclusive tour prices from a given origin to a given LDC.

Of particular relevance is the attractions or otherwise to hotel operators and government tourist authorities of charter ITs. This needs further discussion.

Terms of Reference

- Scheduled-service reactions to non-scheduled operations, and to charter inclusive tours in particular.
- The areas of the world in which charter inclusive tours are an important factor in tourism development, likely spread to other areas, and the likely effect on tourism development in those areas.
- Specific implications on the design of hotels and other tourism plant of the growth of charter inclusive tours.
- The likely long-term place of charter inclusive tours in world air transport.

E. Examination of the cost/benefit aspects of alternative civil aviation policies

This section would cover; with examples where appropriate:

- The application of cost/benefit analysis to alternative civil aviation policies, such as protection versus "open sky".
- The extent to which the effect on tourism potential and its associated economic and social benefits and costs should, or can, be taken into account in air transport cost/benefit analysis and the problems of relating the costs and benefits of tourism to particular air transport projects.
- The problems of evaluation of cross-subsidization of air transport projects from income generated by tourism development.
- Other associated problems in air transport cost/benefit analyses especially with regard to externalities such as national prestige, national security, technical progress, manufacturer benefits, international political relationships, etc.
- Consideration of possible alternative long-term views of air transport projects and their implications for tourism development - and of the interrelated effect of pricing policies in both air transport and tourism on the cost and benefits of tourism development.
- The general problem of demand-forecasting for air transport projects, as the basis for cost/benefit analysis and the need for all such demand forecasts to take full account of long-term tourism potential and of the price-elasticity of tourism demand.

F. Analysis of the air transport situation in specific LDC's with particular reference to the implications of air transport policy and practices on the tourism potential of those countries

This section would examine the situation in a selection of countries to the extent that data can be obtained from national and international sources, in respect of:

- The structure of the air transport industry.
- The national air transport policy in respect of: its own national air services (external and internal): its attitude towards foreign operators (scheduled and non-scheduled).
- Trends in development of air services and air traffic, and any apparent constraints on this development including whether national 'protective' policies appear to inhibit the growth of tourism.

Section of draft report referring

Comments

Covered as well as could be expected in a general study.

Can perhaps be best discussed in the "countries" section (F below).

An important section for the purposes of the study, not adequately covered as yet. For example, the minimum size of individual hotels, or the minimum facilities available in a resort area, before specific types of chartered tourism become possible.

Some long-term projections should be possible, and the implications for LDC's reviewed.

This section has so far not been received. Generalizations will be difficult but an extensive checklist should be included of all identifiable costs and benefits related to aviation aspects of tourist development, to airlines and to airport authorities.

This section has not yet been received. Questionnaires were sent to appropriate authorities in all the countries listed, but response has been poor. However, it is expected that enough data will be available from published sources to deal with most factual matters. Judgments on the appropriateness or otherwise of national aviation policies are likely to prove more difficult and controversial.

Basic data on the listed countries should, to the extent possible, be presented in tabular form.

In some of the countries listed, the opening of commercial air routes to mainland China could be of significance to tourism. Similarly, the possible development of intercontinental air routes offering an alternative to the well established trunk routes.

Terms of Reference

Section of  
draft report  
referring

Comments

- The levels of air fares (external and internal) and the extent to which these seem inconsistent with general world air fare levels and possibly inhibit the growth of tourism.
- Evidence of any probable changes in national air transport policy and examination of any known plans for air transport projects which may contribute to tourism development.

The countries covered by this Section would include:

Afghanistan	Jamaica	Nepal
Colombia	Jordan	Niger
Cameroon	Kuwait Republic	Senegal
Dominican Republic	Kenya	Somalia
Egypt	Korea	Tanzania
Ethiopia	Madagascar	Tunisia
Fiji	Mali	Togo
Gabon	Mexico	Turkey
Gambia	Morocco	Uganda
India		Venezuela
Indonesia		Yugoslavia

G. The characteristics of the principal types of aircraft likely in future to be used for international services

This section would cover:

- Identification of the main types of aircraft likely to be employed on passenger services (scheduled and non-scheduled) and the probable phasing-out of obsolescent types. )
- The types of service on which they are likely to be employed. )
- Estimates of the number of aircraft of each type likely to be employed. )
- Tabulation of the main characteristics of each type. )
- The key airport requirements for the principal future types under defined conditions. )
- Broad comparison of the economics of the various types to specific types of operation and estimates of realistic resultant fare levels for both scheduled and non-scheduled operations. )
- Identification of any constraints on the use of any aircraft types for particular types of operation. )

This section has not yet been received. Summaries of the main technical characteristics of aircraft in commercial service are readily available and should be included. Any reservations in using such data should be indicated. A general summary of the trade-offs between aircraft performance and airport investments would be useful.

Brief review of extent to which reciprocating and turbo prop aircraft are likely to be acceptable in future to international tourists.

H. Main features of airport design relevant to tourism

This section would examine, inter alia:

- The international classifications of different types of airport generally applied, and the main criteria for each classification. )
- The particular criteria which have special implications for, or may produce constraints on, future tourism flows. )
- Tourism related factors which have to be taken into account in airport planning and design. )

This section is not yet received. The main operational aspect is the means by which tourism appraisal teams can reach a preliminary judgment as to whether proposed tourism investments are likely to require airport improvements, and if so, of what type and when.



Mr. A. David Knox, LCPDR

July 19, 1973

P.O. Malone, Section Chief, LCPTR

Comparative Highway Evaluation Study: Draft Report dated June 18, 1973

1. In attempting to study the highway mode "across-the-board", the Operations Evaluation Division (OED) has certainly picked a difficult, and possibly impossible, task; in fact if my memory serves me, some two years ago when this study was first aired, many of us expressed doubts that it could be successful in identifying common factors in our highway projects, since the countries chosen were so disparate in political system and in their state of development, and since the sample of roads selected was so small. Having read the report, my earlier doubts have been borne out, and I think the exercise may have been useful more in terms of refining a methodology for evaluation than in terms of turning up meaningful across-the-board conclusions for highway lending.

2. Going straight to the "meat" of the report, the study has led to the following conclusions:

- (i) Most of the roads, viewed in the narrow context of direct benefits, were successful;
- (ii) Road construction is a necessary but not sufficient condition for development; other factors such as the marketing and productive structures should be looked at. (A logical extension to this conclusion might be that the Bank should not finance roads (with the exception of urban roads) unless they are part of a regional development package which would include all factors necessary for regional development; the report, however, does not go that far).
- (iii) Our institution-building efforts have been somewhat patchy.

3. On the two latter points -- indirect benefits and institution-building -- I find the report is not very helpful and that its treatment is rather shallow and possibly naive. Take, for example, institution-building. It is a fact of life that institutions are subject to political processes and to economic and other constraints. In many of our countries we are confronted with regular changes of Government (e.g. in Colombia every four years) and this frequently means regular changes also in the top echelons of personnel. The problem is compounded by the fact that in many aspects of highway work the gestation period is longer than the life of the Government and of the politicians; how then does one persuade politicians and officials who have, say, a four-year political life to make decisions which will only come to fruition after they have left office. How should one tackle institution-building in these circumstances? The report is silent

July 19, 1973

here. Even in the Bank where such conditions do not exist, how do we keep a consistent "line" on institution-building with the frequent changes in staff.

4. My general conclusion is that as an across-the-board look at the highway mode, the study has not turned up anything revolutionary; the sample was too small and too disparate and such conclusions as the study did reach were probably known already. In fact, compared with the earlier rather narrowly-focussed audits, it may possibly not have been worth the cost incurred; (it might be interesting for OED to do an evaluation of its own working).

5. In terms of specific comments I will mention only a few obvious ones but I would like the opportunity to speak directly with the evaluating team and discuss many other comments in detail; this would probably be more useful than an exchange of memos since our experience to date indicates that memos are not useful in putting OED right on matters of fact.

- (i) The report, like the audits earlier, suffers from sweeping comment which is generally unsupported. An example is the reference to design standards (pages 23, 36 and 152). I think the OED should be required to substantiate all such statements.
- (ii) Specifically on design standards it is probably conceptually wrong to deal with standards in vacuo. The OED admits that it does not take into account maintenance costs (page 26) yet until we know the total cost of any specific set of design standards in terms of initial cost, operating cost and maintenance cost, we cannot say that design standards are too high or too low; currently we just do not know although hopefully our current Highway Design Standards Study will eventually tell us something in this direction.
- (iii) The report talks about choosing the "right" project, presumably in economic terms. I think that this should be treated more cautiously than it is so as not to give the impression that all project selection should be based solely on economic criteria. We all know from our work that in many countries strict adherence to economic priorities may be disastrous, particularly if there are strong regional or even tribal groupings, and that political judgement (which is not necessarily evil) may play an important part in seeing that the national cake is shared equitably. I think it is misleading therefore in the report to imply that the "wrong" project was chosen, without examining more deeply why certain projects were chosen (page 151).
- (iv) I find the treatment of cost and time over runs (page 97 et seq) a little superficial and possibly naive. The report does not really differentiate between bid over runs (which are a function of market conditions, and may possibly be also a reflection of the contractors' evaluation of the political stability of the countries) and quantity over runs which are a function of the adequacy of the engineering; I think one must separate the two. Again (p. 97) on engineering there is always tradeoff between more site exploration (and therefore more cost) and the probability of surprises in the

July 19, 1973

soil conditions as the works proceed. The report appears critical of the lack of site exploration on certain works, but one should probe a little deeper before arriving at such a conclusion. I suspect this portion of the study was not carried out by an engineer, and I suggest that in such evaluations a highway engineer should be included to give the work some realism. If the worry is that incorporation of a Bank engineer would destroy the impartiality and objectivity of the evaluation then the Bank could always retain a consultant specifically for the exercise.

POMalone:pg

O.P. Research  
RPO 293

FOOD RESEARCH INSTITUTE  
STANFORD UNIVERSITY  
STANFORD, CALIFORNIA 94305

Telephone (415) 321-7400

Cable FOODRES STANFORD

July 19, 1973

Mr. R. A. Reader  
Goldsland  
Wenvoe  
Cardiff,  
UNITED KINGDOM

Dear Mr. Reader:

Thank you very much for your letter of June 26, which has been forwarded to me from Washington.

On behalf of both Mrs. Lele and myself, I should also like to thank you for your assistance while you were in Lilongwe in June. It will be a great help to have the Sociological Survey and the 1971/72 Garden and Yield Surveys duplicated and shipped to the Bank well in advance of beginning the actual follow-up study. In this regard, could you please supply me with the name and address of the individual at Portland Cement Company whom I should contact if correspondence is needed in regard to shipping arrangements or billing?

Hopefully the 1972/73 Yield Surveys will have been keypunched and edited by the end of August so that they can be sent to the Bank at that time. I understand that Jim Scott has leased a keypunch and verifier from ICL for use at LLDP, and this equipment should greatly facilitate the Evaluation Unit's data processing activities. I shall be writing to Mr. Scott in the near future to ascertain the status of the 1972/73 survey.

I am most concerned by your statement that it would be of absolutely no value to send the Farm Management Survey (FMS) cards to Washington. As I believe you have seen the proposal for the Lilongwe follow-up study, you will be aware that the principal areas of concern are three: (1) credit distribution patterns and performance, (2) yield changes and extension impact and (3) implications of income changes for consumption, savings and investment. We are counting very heavily on the FMS to supply information in all three of these areas. I have re-examined the FMS forms and very much appreciate the complexity involved and your concern with carrying out preliminary analysis checks. Much of the complexity, however, appears to stem from the recording, day-by-day and month-by-month, of labor inputs and operations. While it is extremely valuable, we are not really interested in this aspect of the data and, by my calculations, perhaps less than one-third of the data in the FMS are directly pertinent to our objectives.

These considerations lead me to several questions:

- (1) How difficult would it be to extract only the relevant data from the FMS and have these cards duplicated and shipped?

July 19, 1973

- (2) Is it not feasible to design an editing program for the FMS (to be run in Washington) that would be capable of rejecting cards with obvious keypunch or recording errors or with values outside the range of plausibility?
- (3) If (2) were done, based upon your experience with data from LLDP, what sort of error margin could be expected and what margin of error would you consider tolerable?
- (4) Failing (2), what are the prospects for extracting, editing by hand, and using a reliable sub-sample from the FMS?
- (5) Have none of the data from the 1969/70 or 1970/71 FMS been edited or partially analyzed?
- (6) Finally, is it possible to mesh data from the Sociological Survey with those from the FMS for any year?

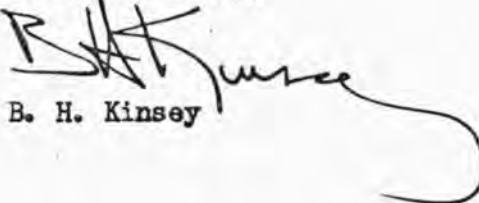
I should greatly appreciate any help you might be able to give me with these queries.

As Mrs. Lele has advised you, we should like to use your time in Washington principally to assist in editing data, preliminary processing and in setting up the design for the analysis. It is essential, therefore, that we have all the data at the Bank before you arrive, if this is at all possible. I shall join you at the Bank on September 10 and would personally welcome your assistance in planning a small-scale field survey to obtain certain primary data on the credit program. After all data have been organized for analysis and the research assistant briefed on the work to be done, I plan to leave for Lilongwe about the first of October.

Mrs. Lele is shortly departing the Bank for home leave and has asked me to request that you direct correspondence related to arrangements for the LLDP follow-up study to me at the address on this letterhead. I shall be at this address through the third week in August.

I shall look forward to hearing from you.

Yours sincerely,

  
B. H. Kinsey

cc: Mrs. Lele, IBRD  
Mr. Andrew M. Mercer, Lilongwe  
Mr. P. J. Scott, Lilongwe

D.P. Keneash  
July 19, 1973

Mr. Barney Rush  
c/o Quaresma  
Praça Andre Rebolças n. 21  
Tijuca, ZC-21  
Rio de Janeiro, GB  
Brazil

Dear Barney:

Thanks for your letter of July 11. In order to try to answer you as completely as possible, I will have to use a rather telegraphic language. On the various points you make my comments are the following:

- 1) All personnel forms you sent me have been channelled properly and you will be receiving by mail, a nominal check for \$300 shortly.
- 2) The division of your payment in two installments was not foreseen at the time we discussed the subject here in Washington. The reasons behind that decision are related to budgetary norms and should not interfere with your fieldwork needs. I can process the second installment, at any time, between now and December, provided you can send a draft of the case studies. I hope you can arrange to pay interviewers upon completion of the work so that no financial gap will occur.
- 3) You are already eligible for reimbursement of your travel expenses incurred in the Mexican stop-over. The letter of appointment, on this aspect, should be interpreted as saying that the Bank will reimburse your travel expenses up to the amount of a round trip Mexico/Rio, i.e. \$450,00. Certainly, if your claim is only for the difference between NY/Rio and NY/Mexico/Rio, i.e. \$200,00, no problem will arise. Please complete the attached "statement of expenses" as soon as possible, and send it to me. Note that besides the trip you are allowed to a maximum of \$45 per day for subsistence during your stay in Mexico City. The only other limitation on the reimbursement is that you should attach to your statement of expenses your used ticket and the hotel voucher (if you claim that). Meals and other expenses need no voucher.
- 4) John Turner has read your letter, and I have discussed with him and Douglas H. Keare the changes you propose to make in your work for the Bank. We all agree that it is fine for you to send us 4 case studies instead of 6, plus the cross-tabulations from the sample survey. Actually, that is a lot more than we have hoped for.

July 19, 1973

5) About the questionnaire you are using for the survey I do have some specific comments:

a. given the dramatic change from favela to conjunto, I find appropriate that you concentrate on the contrast between the last place of residence and the present one. However, the conditions under which migration takes place constitute an important intervening variable. One aspect of that, namely, age of arrival in Rio, will have to be traced back from questions 1 and 6. I would suggest you to code that separately before processing;

b. a similar observation to that on migration patterns, can be made for occupational patterns. In this case, we may not be able to solve the problem of defining employment and unemployment patterns, except for a short time span prior to relocation. The results of question 32 are really uncertain, because the last 3 jobs might/or might not reflect the most important features of the persons' job history. The occupational pattern variable often helps explaining housing choices. It is very good, on the other hand, the care with which you are examining the informal sector of the job market. Please instruct you interviewers to write down as much as possible on that (questions 39 to 42 and 81 to 85);

c. I also find very good the way you have set apart questions 9 and 118. In order to enrich the analysis of these questions, it might be a good idea to obtain a detailed description, from the "authorities" as from "the people", on just how much information about the conjunto and about the options available to them, has been systematically given to relocation "candidates". How has that information been delivered? I believe conjuntos are now somewhat known, and people might want to make a distinction between different types and locations of conjuntos when giving their housing preferences. Please be aware of that.

d. There are other minor points here and there but, in general, I find the questionnaire technically very sound and relevant to this area of research. Congratulations.

6) When you say the Bank can have a copy of the cross-tabs you plan to do, I would like to ask whether there is a chance of meeting with you before the final processing format is decided. If an input in this phase is agreeable to you, we may plan to meet either in Cambridge or in Washington soon after your return from Brazil. Please let me have your reactions on that. By late September/early October, John Turner, Tomasz Sudra and I, will be meeting here in Washington, to decide the processing of the Mexican data. It would be excellent if you could join us then.

7) Please excuse me for not calling on you during my last trip to Brazil. I was in Rio for only half of a working day! In time: Prof. Janice Pearlman will be looking for you in Rio shortly, I've told her she can learn quite a bit from you.

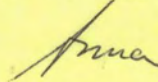
Mr. B. Rush

- 3 -

July 19, 1973

Hoping to have answered most of your questions, I wish all the best of luck to you. Please let me know about anything else you might need.

Sincerely,



Anna Maria Sant'Anna  
Urban and Regional Economics Division  
Development Economics Department

Attachment

Cc. Messrs. Keare, J. Turner

AMS:ap



Mr. P. Kuczynski, Pol. Plan. & Prog. Review Dept.

July 19, 1973

R. Sadove, Director, UPD

Policy Paper Inventory (Mr. M. Haq's Memo of July 16)

1. Please note that the dates for distribution of the policy paper on sites and services have been altered to conform with the "Tentative Schedule of IERD/IDA Board Meetings Through June 1974" (SecM73-402). Board consideration of the site and services paper and the paper on "Possible Bank Operations in the Housing Sector" being prepared by DPS have been scheduled for the same day (March 12, 1974). This makes obvious sense and will permit the papers to be closely related. Distribution to President and PRC is correspondingly now scheduled for January 1974.
2. Summary outlines indicating the issues to be treated are attached for both the urban transport and the sites and services paper.

Attachments.

cc: Messrs. Baum, van der Tak, King, CPS VP's Office  
Jaycox, Transportation Dept.  
Gulhati, Dev. Econ. Dept.  
Keare, URED

HBDunkerley:cba

## SITES AND SERVICES PAPER - SUMMARY PROVISIONAL OUTLINE<sup>1/</sup>

Background. Reasons for Bank involvement; rapidly expanding urban infrastructure needs (including housing, social, production); shortage of resources and employment considerations; bottom 40%.

### Issues.

- Varying scope of site and services concept. Strong emphasis of self-help (implications for savings, output, foreign exchange "leakage") and employment. Other elements besides urbanized plots for dwellings varying with local conditions.
- Squatter settlement upgrading as alternative or complement.
- Security of tenure; pros and cons of different approaches.
- Financial viability and considerations of equity and social policy. Economic pricing as basis for consumer choice and repetitive large-scale programs. Charging in relation to occupants' income, present and future. Relations to taxation and subsidies elsewhere.
- Target income groups; impact on other groups.
- Choice of sites; valuation of land.
- Costs and infrastructure standards in relation to incomes and wage/price levels. Trade-offs between densities and standards.
- Regulation of self-help building.
- Choice of occupants, individuals and groups; difficulties related to project size and impact on overall shortage.
- Organization; limits of public authority efficiency, decentralization, alternatives. Role of participants and private developers.
- Problems of corruption, collection and eviction, sale, subletting.
- Degree of integration into overall housing policy and urban spatial planning.
- Training and technical assistance. Etc., etc.

Problems of Methodology. Evaluation of costs and benefits of different physical project elements. Evaluation of employment and income distribution impact; investment and savings multiplier effects. Possibility of testing by incremental scaling down to reach resource constraints.

A Bank Approach. Need for flexibility in approach and adaptability in implementation. Some fundamental considerations; necessary elements for project inclusion. Less essential elements. Relation to urban investment priorities. Relation to national policies and sufficient impact. Inclusion of land costs in project. Joint or parallel financing; other agencies' technical assistance.

/ For expanded version: Past Bank projects (major or minor element). Future Program.

1/ It is intended to prepare this paper initially as a "Central Projects Memorandum" to provide general guidelines for the preparation of site and services projects and/or their appraisal. A modified and expanded version would subsequently be circulated to the Board as a policy paper at the same time as the policy paper on housing (DPS).

URBAN TRANSPORT SECTOR PAPER - SUMMARY PROVISIONAL OUTLINE

Present Situation in LDC's. Characteristics of urban road stock, traffic composition, congestion, and levels of urban transport investment; relation to town size, urban income levels, national and regional transport systems etc.

Prospects for Urban Transport Demand. Growth of LDC urban populations, income etc., implications for number, type and length of trips. Relation to changes in urban and inter-urban spatial patterns.

Supply Characteristics. Relation of costs and convenience to growth of common road users (private cars, buses, jitneys and commercial vehicles). Characteristics of separate track solutions.

Basic Problems. Speed of growth of sector; high costs and resource limitations; inevitability of congestion; related definition of multiple objectives; criteria of efficiency and social parameters; the rationale for subsidies to public transport and dangers; need for compromise between objectives.

Urban Transport Strategy. Reducing demand for roads and vehicles; priorities; price mechanisms; other restraints; improved public transport; transport-economical spatial patterns. Improving infrastructure; better use of existing capacity; new capacity.

Problems of Methodology. Limitations of existing methodology and computational techniques. Possibilities of simplified, more flexible methodology for LDC's.

Bank Approach. Past; actual projects; related projects. Future; progressive improvement, sub-optimal but flexible; integration with other urban aspects and also regional and national transport; public transport projects, conditions for Bank consideration; urban roads, conditions for Bank consideration. Project and Studies Program. Research.

*D.P. Research*

Form No. 27  
(3-70)

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE  
CORPORATION

**OUTGOING WIRE**

TO: POPOVIC  
ASSISTANT FEDERAL SECRETARY FOR FINANCE  
~~SECRETARY~~ FEDERAL EXECUTIVE COUNCIL  
BELGRADE

DATE: JULY 18, 1973

CLASS OF  
SERVICE: TELEX 11448 YU SIV

COUNTRY: YUGOSLAVIA

*cont*

TEXT:  
Cable No.: REFERENCE OUR LETTER MAY 31 AND YOUR CABLE JUNE 25 ON RESEARCH STUDY OF  
SMALLHOLDER DEVELOPMENT STOP WOULD APPRECIATE CONFIRMATION THAT BANK  
CAN PROCEED WITH STUDY AS OUTLINED ABOVE LETTER SINCE ROGERS PLANNING  
START PREPARATORY WORK IN BELGRADE JULY 30 STOP REGARDS

"  
KOPP  
INTBAFRAD

**NOT TO BE TRANSMITTED**

AUTHORIZED BY:

NAME Hans-Eberhard Köpp

DEPT. MENA C. P. I

SIGNATURE *Hans-Eberhard Köpp*  
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE:

CLEARANCES AND COPY DISTRIBUTION:

CC: Mr. Rogers

EKöpp/sm

For Use By Communications Section

**ORIGINAL (File Copy)**

(IMPORTANT: See Secretaries Guide for preparing form)

Checked for Dispatch: *[Signature]*

0.5. Revised

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE  
CORPORATION

OUTGOING WIRE

TO: **FORNID**  
**ASSISTANT FEDERAL SECRETARY FOR FINANCE**  
**INTERNATIONAL FEDERAL EXECUTIVE COUNCIL**  
**BRIGADE**

DATE: **JULY 18, 1953**

CLASS OF SERVICE: **TELEX 11446 YU SIX**

*copy*

COUNTRY: **YUGOSLAVIA**

TEXT: **REFERENCE OUR LETTER MAY 31 AND YOUR CABLE JUNE 22 ON RESEARCH STUDY OF SMALLHOLDER DEVELOPMENT STOP WOULD APPROPRIATE CONFIRMATION THAT BANK CAN PROCEED WITH STUDY AS OUTLINED ABOVE LETTER SINCE ROGERS PLANNING START REPARATORY WORK IN BRIGADE JULY 30 STOP BRIGADE**

H  
KOPF  
INTBRAD

NOT TO BE TRANSMITTED

CLEARANCE AND COPY DISTRIBUTION

CC: Mr. Rogers

COMMUNICATIONS SECTION

Hans-Eberhard Kopf

*Hans-Eberhard Kopf*  
18 12 PM '53

DISPATCHED

ORIGINAL (file copy)

*[Handwritten signature]*

O.P. Research

Mr. Timothy King, Development Economics

July 18, 1973

Guy P. Pfeffermann, LAC I

GP

Income Levels, Distribution and Fertility

1. There seems to exist a fairly strong degree of correlation between per capita incomes in Latin American and Caribbean countries on the one hand and birth rates on the other. Some of the deviant cases (e.g., Mexico, Venezuela, where average per capita income and fertility are high; Barbados, where average per capita income and fertility are low) could be "explained" if the distribution of income were taken into account. Because of a very skewed distribution of income, most people in Mexico and Venezuela are poor in spite of the relatively high average per capita income. Conversely, Barbados, with a relatively modest per capita income, has a very even distribution of income. In sum, is the emergence of a broad middle-class strongly correlated with a drop in fertility? The examples of Costa Rica and Uruguay might lend support to the hypothesis.

2. To explore the income/demography relationship further so as to test the hypothesis, one would require information that does not seem to be readily available in many LDC's. I should be very grateful if you would let me know which countries have census or household survey data that allow for a stratification of fertility by income groups.

3. Mr. Lluch of the Development Research Center is involved in a consumption and savings study which includes an analysis of Mexican household survey data. By the Fall we should know whether the Mexican tapes enable us to single out meaningful demographic data. Mr. Cuca might give a hand in looking over the material and trying to "translate" it into demographic terms. Whether the Mexican exercise is fruitful or not, I should be very grateful if you could send me a list of countries and sources in the developing world, which (however imperfectly) might help in testing the somewhat unoriginal hypothesis set forth in paragraph 1.

cc: Messrs. Avramovic  
Holsen  
Scott  
Cuca  
Lluch

GPfeffermann:sm

July 18, 1973

Mr. Keith Shaw  
Administrative Director  
Overseas Consultancy Service  
30 Millbank  
London SW1 P4RD  
England

Dear Mr. Shaw:

Standards of Urban Electricity Distribution  
Research Project

Further to my letter of July 5, 1973, I have asked Mr. M. van Gent of our Personnel Department to send to you the formal contract for writing the Review Paper on the above subject, which I expect to receive early in August 1973.

No doubt there will be correspondence between us on the subject matter in the Paper, and what steps follow afterwards will depend upon the content of the Paper and the subsequent correspondence. What is still intended, however, is to adhere to the Terms of Reference referred to in, and attached to, my letter to you of March 29, 1973 for writing the "State of the Art" paper. The members of the team, Messrs. Prior, Brown and Boley whom you suggest for this work are acceptable. The envisaged timetable is to hold discussions with the team in Washington for a period of about three days commencing September 24, 1973. The purpose of these discussions would be to firm up the rest of the timetable and the Terms of Reference for writing the "State of the Art" paper. The visit of the team to Washington would be followed by a visit to one or more Bank borrowers (probably in Central America) and, possibly, to one or two American utilities, to obtain more insight in to what is required and what has been the practice of American utilities, respectively.

In accordance with the request in your letter of June 27, 1973, I attach a copy of an internal document entitled "Public Utility Note No. 4 - Standards of Urban Electricity Distribution" which, together with its covering memo, shows the Bank's latest thinking operationally on this subject. I also attach a copy of the Bank's Appraisal Handbook which indicates how projects are presently appraised.

Mr. Keith Shaw

- 2 -

July 18, 1973

With respect to what is meant by "institutional" topics in 5(a) of the draft Terms of Reference, these are better explained in the Appraisal Handbook. They include such considerations as the private or public status of the Electricity Utility, its relationships with regulatory bodies and government departments, its organizational form (cooperative, local utility, national utility) and other administrative matters.


Examples of typical per unit cost functions are construction cost per kW of after-diversity maximum demand, construction and annual operating cost per customer, connection cost per customer, relationships between per unit costs and numbers of customers, total kW loading, etc.

I look forward to exchanging further ideas with your team and to receiving the Review Paper in the near future.

Sincerely yours,

T. W. Berrie  
Power Economics Advisor  
Public Utilities Department

Enclosures

 TWBerrie:pfa

cc: Messrs. van Gent, Ray, Dunkerley, Rovani, Howell, Friedmann, Warford.



Mr. Yves Rovani

July 18, 1973

J. J. Warford

Costa Rica Rural Telecommunications Research Study

The objective of this study will be to develop a methodology to evaluate the merits of investments in telecommunications facilities in rural areas. The Costa Rican electricity and telephone authorities (ICE) are apparently anxious for assistance in this area, since they are now about to undertake a large rural telecommunications investment program.

Analysis clearly involves two aspects: a study of costs and of benefits. Mr. Schkolnick will deal primarily with the cost side, aided by ICE, and making information available, as necessary, to members of the Institute of Economic Studies of the University of Costa Rica, who are expected to work on the analysis of project benefits. This part of the study is to be financed out of Research Committee funds (\$22,000 available for FY '74), in addition to which ICE have promised to provide certain assistance in the form of technical advice and local transport. We should aim at completion of the study in about one year.

The next step will be a visit to Costa Rica in early August by Messrs. Schkolnick and Littlechild (consultant) and myself. Based upon prior discussion between Mr. Schkolnick and the University, we have already requested that the latter submit a research proposal to us. So far, and about two months after the agreed submission date, none has been received.

In view of the fact that we will be unable to maintain close supervision of the research project (as we do in the case of the El Salvador Village Electrification study), the success of the project will depend heavily upon the university faculty members involved. Consequently, we will not approve the project unless and until they demonstrate their competence and interest by submitting - of their own accord, but in the light of our advice - a satisfactory proposal. Discussions during the proposed mission will therefore be aimed at giving them a broad idea of the kind of problems which face us in evaluating the benefits of telecommunications investments, summarising for them our thinking on the subject, and then leaving it to them to produce a detailed proposal. In the light of our assessment of their general capabilities, we will then decide whether or not to pursue the research effort with them.

JJWarford:pjk

cc: Mr. Schkolnick

Mr. E. Stern, DPS

July 17, 1973

Timothy King - P&HRD

Ms. Epstein's Proposal - The impact of population growth  
on the distribution of income in rural communities.

Your note makes several very valid points which has had the effect of dampening my enthusiasm for the project but certainly not extinguishing it. On one point I don't think you are correct. Ill defined and hard to test her main hypothesis may be, but I don't think it is tautological. The distribution of income among families depends on the functional distribution of income between factors of production and the relative numbers of families sharing each category of incomes. On the whole, I believe, there has been little tendency for factor shares to change much, though I wonder whether this is true for rents and the concept of human capital makes the analysis a tricky one. In any case, it is unlikely that rent has tended to increase its share in most societies. If relative functional shares are assumed to remain constant then what happens to the distribution of family incomes depends on the numbers of families in each class. Now it is certainly not obvious that the number of families primarily depending on labour incomes will increase faster than those relying on land. This will depend on differential mortality and fertility, and on patterns of inheritance and assortative mating. Presumably mortality is lower among landlords. It is normally assumed that fertility will be too, but some instances of a positive correlation between fertility and income have been found in rural areas.

I agree however that Ms. Epstein's proposal may not be the best way to do research on population growth and income distribution. Eight villages are just too small to provide a basis for generalization. In addition there is certainly a data problem in getting trends over time. What excites me is the unique opportunity offered by this project to get really penetrating material on household behaviour at the micro-level - with a great deal of opportunity to make certain that the researchers have really understood the nature and background of the questions one wants them to ask. I am not sure that we could find completed Ph.Ds who would be prepared to live in villages for a year. If we did support any part of the project it would certainly be on the understanding that we would turn the focus of the project much more towards our own interests. I might, for example, go and spend a week or two at Sussex teaching them what we want and why. Ms. Epstein appears to have a first-rate reputation in her field. In addition at Sussex there are Robert Cassen and Michael Lipton who undoubtedly could be of help both on the details of the research design and in training personnel.

The other problems, such as the timing and the fact that we could only support a portion of the costs, mean I presume that the research committee could only entertain a proposal if presented in conjunction

Mr. E. Stern

- 2 -

with some other arrangement for financing the cost of students in Sussex, and if it were presented to them next spring. This obviously reduces the degree of urgency. I have written to Ms. Epstein to ask her what her views on timing now are and also the extent to which she would accept a change of emphasis away from research on distribution of income towards that on the determinants of fertility. I really don't see why anthropologists spending a whole year in each village should not have plenty of time to look at both. In any case I hope to talk to her in Sussex in August.

TKing/hs

cc: Mr. Gulhati

*L.P. Research*  
*Senegal - G. 336*

July 17, 1973

Mr. H. G. Quik  
General Director  
Netherlands University Foundation for International  
Cooperation  
Molenstraat 27  
The Hague, The Netherlands

Dear Sir:

I am writing to you in support of the proposal of Professor R. R. Bergh of Projet Senegal RUL-12 for the creation of a "Centre de Recherche pour la Planification Urbaine" within the Institut Fondamental d'Afrique Noire. I am an economist in the Urban and Regional Economics Division of the Development Economics Department, working in collaboration with Douglas H. Keare, and responsible for the monitoring and evaluation of the Bank's urban projects.

During the course of preparation and initial execution of the Bank's first urban project, the Senegal Site and Services Project, Bank staff members have been assisted by members of Projet Senegal RUL-12 in many instances. We have been consistently impressed by the organization and execution of Projet Senegal RUL 12. Its collaborative approach with Senegalese authorities and orientation toward applied research are to be highly recommended to other research efforts in developing countries.

The procedure and content of Projet RUL-12 has also interested the Bank in relation to our intention to undertake an intensive study of the Senegal Site and Services Project. This effort would examine a broad range of social and economic aspects of the project, as well as its wider effects on the economy of the Cap Vert region. The initial phase of the study is to begin in the spring of 1974 and to continue for two years. We would hope that later follow-up efforts would also be undertaken, using the data base established during the first phase.

We believe that the value and efficiency of this effort would be greatly improved if it were affiliated with a permanent institution in Dakar. To this end, I visited Dakar in October 1972 to survey existing research institutions to determine which, if any, might facilitate an intensive applied research effort by a Bank-sponsored research team.

July 1973

After discussions with ORSTOM, IDEP, and IFAN, I concluded that the most relevant applied research underway in Dakar was Projet RUL-12. I was pleased to learn that Professor Bergh and his Senegalese counterparts were considering the possibility of establishing a "Centre de Recherche pour la Planification Urbaine" within IFAN. On the basis of the October mission, and two subsequent visits to Dakar in 1973, during which I have had extensive contacts with Projet RUL-12, I have recommended that the Bank's study effort be affiliated with the proposed "Centre de Recherche". This recommendation has been accepted within the Bank and, indeed, has been cited as an effective multi-purpose affiliation for Bank-sponsored research.

At the present time, we would envisage this affiliation to involve the physical location of the Bank study team within the "Centre de Recherche," the use of the Bank study budget as a share in the operating budget of the "Centre de Recherche," though not for capital expenditures, and the training of Senegalese, Dutch, and other foreign students by Bank study team members within their examination of the project. Whilst the primary function of the Bank team would be to complete a very full research agenda, we would hope that the team and its resources could be used to help the "Centre de Recherche" establish itself in its early years.

Given the above, I would strongly support the joint Senegalese-Bergh proposal that NUFFIC or the Dutch Government continue its support of Projet RUL-12 through the creation of a "Centre de Recherche" as a further institutionalization of Projet RUL-12 in Senegal. I believe that an applied research institution would be a major contribution to the educational and policy-making process of Senegal.

If you perceive any need for further indication or discussion of the Bank's intentions in this situation, I would be pleased to respond at any time.

Sincerely,

*MAC*

Michael A. Cohen  
Urban and Regional Economics Division  
Development Economics Department

Cc.: Keare, Carrere, Denning, Clignet

July 17, 1973

Dr. Pablo Latapi  
Centro de Estudios Educativos  
Culiacan 108, Piso 4  
Mexico D.F.  
Mexico

Dear Dr. Latapi:

I am writing to you in connection with the research project on the financing of education in Latin America carried out by the Education Department (Central Projects Staff) of the World Bank.

As I told you during our casual and sometimes unplanned meetings in Mexico, Lima or elsewhere, this research program consists mainly of a set of country case-studies, each of them concerned with one particular topic in the field of education finance.

One of these topics has to do with privately-financed education. It includes such questions as: To what extent can private education be considered as an alternative to public education in a context of shortage of public funds? What is the performance of the private education sector in terms of costs and efficiency? Do private schools have any special impact on students' attitudes and occupational aspirations? etc. This listing of questions is clearly not exhaustive; it is here mainly for illustrative purposes.

I believe that Mexico would be a suitable country to carry out a study on private education provided that it is possible to reduce the scope of the study to manageable dimensions by selecting one particular level of education, for instance, secondary education - in one particular area, for instance, in big cities. This is not only a question of technical feasibility but also of budget.

Because it is hard to carry out such a study while being based in Washington without a local counterpart, I want to enquire about the possibility of involving either you or the Centro in a study which, after all, deals with topics closely linked with the objectives of the Centro. I am, of course, well aware of the studies

Dr. Pablo Latapi

- 2 -

July 17, 1973

carried out in the past on these topics by the Centro and, particularly, of the works by Ulloa and Munoz on the "escuelas particulares" of the Federal District of Mexico.

To sum up, I would like to know whether the idea of a joint Bank/Centro de Estudios Educativos project in the area of private education appeals to you. In case of agreement, the Education Department of the Bank would be willing to finance a certain amount of local consultants' work at the Centro.

I look forward to your reactions to these proposals and hope that some form of close cooperation thus be established between us.

With best regards.

Sincerely,



Jean-Pierre Jallade  
Central Projects Staff  
Education Department

P.S. As I know that you may not be in Mexico now, I am also sending a copy of this letter to your address in Paris (42 rue de Grenelle, Paris 75007, France).

*OP Research*  
*Senegal - Cr. 336 Admin*

Professor Remi Clignet, Consultant

July 16, 1973

Michael A. Cohen, URED *AK*

Terms of Reference for the Monitoring and Evaluation of the Senegal Site and Services Project, July 1, 1973-July 1, 1976

1. In accordance with the general discussions concerning your participation in the monitoring and evaluation of the Senegal Site and Services Project and your letter of appointment of June 4, 1973, the following terms of reference formally define your responsibilities.

2. Your title will be Director of the Monitoring and Evaluation of the Senegal Site and Services Project. As director, you will be responsible for the completion of a two year study of the Senegal Site and Services Project, with particular emphasis on the Dakar portion of the project.

3. This study is jointly sponsored by the Urban and Regional Economics Division of the Development Economics Department and the Urban Projects Department. For administrative purposes, as specified in your letter of appointment, you will report to the Urban and Regional Economics Division. The study will begin in Senegal after April 1, 1974, or at a later date depending on the progress of the project.

4. Objectives of the Study

The objectives of this study as specified in the Draft Terms of Reference for the Monitoring of Site and Services Project (See Annex I) and modified by subsequent discussion, are the following:

- a) To provide data and analysis concerning the development of the project during the first two years after initial occupancy of plots in the first phase in order to improve execution and supervision of the project.
- b) To evaluate the success of the project in terms of implicit and explicit objectives established in the project documents. The specific design of this evaluation will be developed prior to your departure for Senegal in the spring of 1974 in agreement with the two sponsoring Departments of the Bank.
- c) To provide a data base for later studies of this project beyond the two years of your on-site activities in Senegal.
- d) To evaluate the wider effects of this project on the urban centers in which it is located.
- e) To provide data and analysis for the preparation of annual reports on this project to the management of the Bank.
- f) To provide information on desirable improvements in the design of similar projects for future lending.



5. Personnel and Budget

In fulfillment of these objectives, you will be assisted by another researcher, to be chosen in agreement with you and the Bank, and provided with a budget you consider sufficient to attain the above objectives. The choice of your assistant and the specification of the approval of the budget is to be completed no later than January 1, 1974.

6. Terms of Responsibility

During your tenure as director of this effort, you will be responsible only to members of the Urban and Regional Economics Division of the Development Economics Department and the Urban Projects Department with administrative and substantive responsibility for your work. You will communicate all information about this effort only to the Bank staff members mentioned above, unless otherwise authorized by the Bank. Decisions regarding fieldwork in Senegal will be agreed upon only between yourself and Bank staff members.

Beyond the above terms of responsibility governing your work for the Bank, the Bank will retain a consultant group to advise it on general questions of research design for the monitoring and evaluation of three site and services projects, of which the Senegal effort is a part, and to assist in the preparation of a summary report after fieldwork has been completed for the three projects. This group, however, will only communicate with the Bank, unless otherwise authorized by the Bank. Conversely, as stated above, you will not communicate with this group, unless otherwise authorized by the Bank.

7. Reports

Throughout your work in Senegal, you will be responsible for providing annual accounts of study expenditures and six-monthly reports on your substantive finds. These reports should be coordinated with supervision missions of the Urban Projects Department. You will be expected to submit a summary report upon completion of the two year's fieldwork.

8. Use of Information

Procedures to be used governing the use of data and information collected during your work in Senegal will be agreed upon no later than January 1, 1974.

9. Participation in the Comite de Controle

While carrying out fieldwork in Senegal, you will participate as a consulting member of the Comite de Controle of the Direction de Parcelles Assainies of the Office de l'Habitat de Loyers Moderes.

July 16, 1973

10. Work for Other Departments of the Bank

In addition to work specified in these terms of reference, if time permits, you will be requested to undertake other work for the Bank by the Country Programs Division II, with the written agreement of the two sponsoring Departments of the Bank.

MAC:ap

Cc. and Cleared with: Messrs. Keare, Venkateswaran

Cc.: Messrs. Stevenson, Gulhati, Strombom, Carrere, Huber, Denning, Sant'Anna

NETWORK

July 16, 1973

DHK  
Douglas H. Keare, Chief, ECDRB

Terms of Reference for Participation in the Monitoring and Evaluation of Site and Services Projects, July 1, 1973 to December 31, 1973

1. In accordance with Michael Cohen's letter of May 1973 to John Harris, the general discussions concerning your participation in the monitoring and evaluation of site and services projects, and John Turner's letter of June 14, 1973, the following terms of reference formally define your responsibilities for the period July 1-December 31, 1973, unless otherwise agreed by the Bank and NETWORK during that time.

2. NETWORK is retained by the Bank to perform the following functions during the period specified above:

- 1) advise on research design before fieldwork begins;
- 2) advise in fieldwork personnel selection.

3. During the specified period, an agreement will be reached between NETWORK and the Bank concerning additional functions to be performed after January 1, 1974 (Annex 1). In order to facilitate budgetary and manpower planning, scheduling of NETWORK participation in the Bank's monitoring and evaluation activities will be done on a semester basis.

4. The performance of functions related to monitoring and evaluation will occur within the following framework of responsibility:

Decisions concerning research design, fieldwork procedures, and personnel will be the responsibility of the Bank, in collaboration with the researchers in the field. Responsibility for other activities to be performed after January 1, 1974, will be defined as part of the agreement concerning additional functions.

5. Scheduling of Activities

The following schedule for July 1 to December 31, 1973, lists the specific tasks to be completed by NETWORK during this period:

- 1) elaboration of a draft research design for the entire effort, covering the three projects, to be submitted by November 15, 1973. (15 man-days);
- 2) preparation of an analysis of the criteria by which other projects beyond Senegal will be chosen for study, to be submitted by November 15, 1973, (10 man-days);
- 3) participation in the selection of fieldwork personnel by January 1, 1974 (one man-day);
- 4) drafting of an agreement concerning the use of information collected during this effort, by January 1, 1974 (one-man day).

CP-RESEARCH  
July 16, 1973

Mrs. T. S. Epstein  
Andrew Cohen Building  
Palmer,  
Brighton,  
Sussex, England  
BN1 9RE

Dear Mrs. Epstein:

I have discussed your proposal with several people. Personally I am very excited but I have to confess that not everybody in the Bank is as enthusiastic about it and certainly we are some way from being able to finance all of it or even part of it.

The thing that excites me about it is the general potential which I see in using anthropological techniques to study the cause and effects of population behaviour rather than your own specific hypothesis about income distribution. Indeed given the enormous variety of village economies and traditions of land tenure, inheritance, etc., and also given the many factors which undoubtedly influence the pattern of income distribution, I am somewhat sceptical of how much one might learn from eight villages, however carefully chosen. In addition I have some doubt as to whether one would be able to get sufficiently accurate information on the past to be able to establish conclusively what had happened to income distribution. On the other hand I find the possibilities of studying what you call "cost benefit considerations" of extreme interest, because it seems to me that if we could understand the economic role played by children and by women in a good deal more depth than we do now we would have some hope of being able to understand whether a decision to have a family of a particular size was (whether undertaken primarily for economic reasons or not) an economically rational one. If children do provide a substantial contribution to the earnings of a rural household from an early age, if they do support their parents in old age or while sick, if they cost very little other than the small increment of food in the years before they start working - then it might be quite an economically sensible decision for parents to have families of a particular size, though eventually one assumes the marginal productivity of an additional child would drop. It would be interesting to know when. In addition, one suspects that for small farmers there may be an intergenerational conflict - the larger the family the larger the benefits for the parents but the smaller amount of land for each child to inherit. In this respect

one might expect different behaviour between those who own land and those who don't.

There are also a number of related questions that one might learn from the sort of intensive but nonstructured interviews which presumably anthropologists are able to have. Do perceptions of the probability of mortality resemble reality? Many people believe that fertility and mortality are related - that individuals overcompensate for the possible loss of a child since the risk to the individual of losing an individual child is much greater than the risk to society of losing the whole of a cohort. Possibly good anthropological work could do a lot to increase our understanding of the behavioural determinants of fertility where the normal sorts of survey questions have so manifestly failed.

I must confess I find this a much more promising area for anthropological work than the question of income distribution, but I certainly don't see why it should not be possible for a researcher with a year in a village to really study all of these things, particularly if they have previously spent a whole year in being trained what to look for, how to go about obtaining facts, the reason why certain observations are likely to be of particular interest, and so on.

A problem in terms of our providing assistance is that the research budget of the Bank for the next twelve months is pretty fully committed. A more important obstacle is that we do not normally finance the training of graduate students, and we would have difficulty in picking up most of their costs at Sussex. I have not however abandoned hope that we might have a collaborative arrangement with somebody (ODA?) where we would pick up all the field cost, travel cost, conference costs, etc., leaving the financing of the students at Sussex to be done by somebody else.

I note that the original date you hoped to start this - i.e. the selection of the students - has already been and gone. Can you please tell me what this means? Does it really mean the postponement for a particular year or a very substantial modification of approach? I would also be interested to get your reactions to the change of emphasis that I would want to see in the proposal. I do understand that these questions may be from your point of view relatively uninteresting.

I hope to visit Sussex on either Monday, August 21 or Tuesday, August 22, or both. Would you be there then? Since your proposal is

Mrs. T. S. Epstein

-3-

the main reason why I would like to visit Sussex, if you are not going to be there then could you please let me know other times that would be convenient. If you are going to be there then don't bother to reply to this letter in any detail. We can discuss it when I come.

I hope to see you.

Yours sincerely,

TK  
Timothy King  
Chief, Population and Human Resources Division  
Development Economics Department

TKing/hs

cc: Mr. E. Stern  
Mr. R. Gulhati



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1818 H Street, N.W., Washington, D. C. 20433, U.S.A.  
Area Code 202 · Telephone - EXecutive 3-6360 · Cable Address - INTBAFRAD

*yellow*

*O.P. Research*

July 13, 1973

Mr. James R. Greene  
Senior Vice President  
Manufacturers' Hanover Bank  
350 Park Avenue  
New York, New York

Dear Jim:

I am writing because of an associate of mine, Mr. Frank Vibert, who is preparing a study for Mr. McNamara on an export credit guarantee facility which has been suggested by the Governor of the Bank of Israel to the World Bank. Mr. Vibert is interested in exploring with some financial people the question of whether export credit paper from developing countries, possibly guaranteed by the World Bank, would have market acceptability and under what conditions. Frank will be visiting New York on July 24 and 25. It seemed to me that it would be very interesting for him to talk to you or whoever you designate. Could you call him (477-4545) or me (477-4546) to let us know when on these two days you might receive him.

Best regards,

Sincerely yours,

*Pedro Pablo*  
Pedro-Pablo Kuczynski  
Division Chief  
Policy Planning and  
Program Review Department

D. P. Research

BANQUE AFRICAINE DE DÉVELOPPEMENT  
AFRICAN DEVELOPMENT BANK



LE PRÉSIDENT

ABIDJAN, 13 July 1973

Mr. Robert S. McNamara  
President  
International Bank for Reconstruction  
and Development  
1818 H. Street  
WASHINGTON D. C. 20433  
U. S. A.

Dear Mr. McNamara,

I write to acknowledge with thanks receipt of your letter of April 27, 1973 concerning the proposed Export Credit Guarantee Facility for Trade between Developing Countries.

I read with great interest the enclosed proposal and the preliminary review of the broadlines of the proposed scheme conducted by your staff. My first reaction is that the proposal is sound in principle and, therefore, deserves to be studied in greater detail.

Although only very few of our member countries are likely to benefit from such a scheme in the initial stage, we in the African Development Bank believe that the proposed facility will, in the long-term at least, be beneficial to our members. We, in fact, have for some time been considering the feasibility of the ADB setting up an export credit facility for its member countries. However, a multinational scheme as suggested by the proposal appears to me to hold out greater possibilities for the developing countries than individual and limited regional facilities.

We are therefore looking forward to participating actively in the forthcoming consultations with the IBRD and the other regional development banks and in connexion with the study of the remaining unsolved technical,

.../..





Mr. Robert S. McNamara

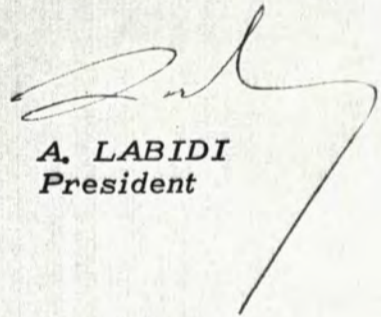
- 2 -

13 July 1973

*economic and legal aspects of the proposed scheme. If the detailed study now being carried out by your staff is finalized before September, this year's meeting of the Board of Governors of the World Bank in Nairobi might offer a good opportunity for a first exchange of views between our organizations on the subject.*

*With best regards,*

*Yours sincerely,*



A. LABIDI  
President



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1818 H Street, N.W., Washington, D. C. 20433, U.S.A.  
Area Code 202 - Telephone - EXecutive 3-6360 - Cable Address - INTBAFRAD

*P. Research Yellow*

July 13, 1973

Mr. George J. Clark  
Executive Vice President  
First National City Bank  
399 Park Avenue  
New York, New York

Dear Jack:

I am writing because of an associate of mine, Mr. Frank Vibert, who is preparing a study for Mr. McNamara on an export credit guarantee facility which has been suggested by the Governor of the Bank of Israel to the World Bank. Mr. Vibert is interested in exploring with some financial people the question of whether export credit paper from developing countries, possibly guaranteed by the World Bank, would have market acceptability and under what conditions. Frank will be visiting New York on July 24 and 25. It seemed to me that it would be very interesting for him to talk to you or to whoever you designate. Could you call him (477-4545) or me (477-4546) to let us know when on these two days you might receive him.

Best regards,

Sincerely yours,

*[Handwritten signature]*  
Pedro-Pablo Kuczynski  
Division Chief  
Policy Planning and  
Program Review Department



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1818 H Street, N.W., Washington, D. C. 20433, U.S.A.

Area Code 202 · Telephone - EXecutive 3-6360 · Cable Address - INTBAFRAD

*O.P. Kuczynski*

July 13, 1973

Mr. Mark C. Feer  
Kuhn Loeb & Co.  
19th Floor  
40 Wall Street  
New York, New York 10005

Dear Mark:

I am writing because of an associate of mine, Mr. Frank Vibert, who is preparing a study for Mr. McNamara on an export credit guarantee facility which has been suggested by the Governor of the Bank of Israel to the World Bank. Mr. Vibert is interested in exploring with some financial people the question of whether export credit paper from developing countries, possibly guaranteed by the World Bank, would have market acceptability and under what conditions. Frank will be visiting New York on July 24 and 25. It seemed to me that it would be very interesting for him to talk to you. Could you call him (477-4545) or me (477-4546) to let us know when on these two days you might receive him.

Looking forward to seeing you in August,

Best regards,

Sincerely yours,

Pedro-Pablo Kuczynski  
Division Chief  
Policy Planning and  
Program Review Department

*D.P. Research*

## OFFICE MEMORANDUM

TO: Files

DATE: July 13, 1973

FROM: Harold W. Messenger *HW*SUBJECT: Proposed Development Economics Department Mission to Taiwan to Conduct Research  
on Urban Land Use Policies

On July 11, Mr. Kalim and I met with Mr. Grimes of the Development Economics Department to discuss a proposed research project dealing with urban land use policies and taxation in developing countries. Mr. Grimes gave us a copy of his memorandum of March 26 to Mr. Keare which sets out the purpose of the research project.

According to Mr. Grimes the Taiwanese are quite advanced in the use of urban taxation and would be an ideal country to be included in the research project. Also, there is an institute outside of Taipei that trains government officials from all over Asia in matters of land valuation and taxation. For these reasons, Mr. Grimes was seeking approval to visit Korea probably some time in November with a consultant to discuss with officials in the Taipei Government and the Ministry of Finance the policies and practices followed with respect to land valuation and taxation.

Mr. Goodman agreed that this would be an appropriate undertaking. I so notified Mr. Grimes and asked that he clear his terms of reference with us at the time that they are prepared. At that time Mr. Wong in the Embassy should be advised of the mission to ensure that it is convenient.

HMessenger:ar

July 13, 1973

Mr. P. Ganendra  
Director-Engineering  
Malaysia International Consultants SDN  
P. O. Box 2263  
Kuala Lumpur  
Malaysia

Dear Mr. Ganendra:

As requested, I enclose, in draft form, the summary chapter of a study on the impact of water/sewerage investments on property values. The object of this research was to see if the increase in property values following such investments could possibly be used as a routine method of benefit measurement in project appraisal. I think we have to conclude that in view of the tremendous statistical problems encountered, this is not feasible, although a number of lessons afforded by the study may assist project evaluation in some circumstances.

You will see that lack of data for the project and control areas that were selected prevented us from evaluating the benefits of sewerage investments in Kuala Lumpur. Unfortunately, therefore the results of the study itself will not give you any quantitative information that can be applied to your current project. You may however wish to use the general approach, which, along with a summary of the empirical and theoretical problems that have to be faced, ~~is~~ explained in the enclosed chapter.

I will send you a copy of the full report as soon as it is completed, which should be within a couple of weeks. In the meantime, if you have any questions about the study, please do not hesitate to write to me again.

Sincerely yours,

J. J. Warford

Enclosures

JJWarford:pjk

Mr. William Cosgrove

July 13, 1973

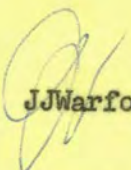
J. J. Warford

Research Project: Impact of Water Supply and Sewerage  
Projects on Property Values

Thank you for your comment on the above project.

I would agree with the consultant's conclusions on the Nairobi study, namely that it is not possible to disentangle the impact of sewerage investments from that of rezoning. To put it in the simplest way, we have no reason to doubt that an increase in property values could result from rezoning alone. In effect, to impute the whole of the benefits to sewerage implies that zoning authorities have perfect knowledge of its benefits, acceptance of which assumption would of course have made the whole study superfluous.

As to your point regarding the Kuala Lumpur case study, I agree that there was an administrative error in not ensuring that the data gap was not picked up in the field. However, I am willing to guarantee from personal knowledge of the case that there were no other suitable control/project area combinations that could have been selected in Kuala Lumpur, the conclusion therefore being that successful identification of project benefits by the method employed is not feasible in that city.

  
JJWarford:pjk

cc: Mr. Wyatt  
Mr. Thys

July 12, 1973

Dr. Isaac Kerstenetsky  
Diretor  
Instituto Brasileiro de Geografia  
e Estatística - IBGE  
Av. Franklin Roosevelt 166  
Rio de Janeiro, Guanabara  
Brazil

Dear Mr. Kerstenetsky:

The Education Department of the World Bank (Central Projects Staff) is currently carrying out a research project on the financing of education in Latin America. The project - which I am responsible for - consists of a set of country case-studies, each of them concentrating on one particular aspect of education finance.

One of the topics to be considered for the project is the long-term impact of public finance for education on the distribution of income. To put it another way, the project seeks to elucidate if, and to what extent, public expenditures on education can be considered as a policy tool to achieve a more equitable distribution of income.

While we believe that the implications of this question for public policy are important, and might be relevant to the Brazilian situation, it is correct to say that very little has been done in this field. We are now in the process of securing the help of outside consultants and checking the feasibility of such a study from the viewpoint of the availability of data.

On the first point, we are in touch with Professor Gian S. Sahota whom you know from his days in Brazil and who is particularly well qualified to deal with those particular aspects of the study related to taxation.

On the question of data, your cooperation would be most useful in order to help us carry out the study. For instance, the starting point of the study would be a three-ways classification of the active population according to age, income and education. Such a

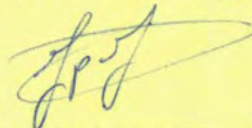
July 12, 1973

classification could only be found by processing a sample of the 1970 census returns. Also, expenditure patterns by level of educational attainment as yielded by the household surveys carried out by IBGE or the Fundacao Getulio Vargas would be most useful to us.

Though there is no point in being too specific at this stage, these examples will, I assume, help you to have an idea of what we are aiming at. While I would like very much to have your reactions on the project, I intend to go to Rio during the first half of September in order to make a first contact with the individuals and institutions which might cooperate in the project. Mr. Sahota, who is not available before August-September, would join us at that time.

I look forward to your reactions to these proposals and hope that some form of close cooperation will be established between us.

Yours Sincerely,



Jean-Pierre Jallade  
Central Projects Staff  
Education Department

cleared with and cc:

Messrs. R.F. Skillings  
N. Erder

JPJ/nm



## OFFICE MEMORANDUM

TO: Mr. Jeremy J. Warford DATE: July 12, 1973

FROM: William Cosgrove

SUBJECT: Research Project: Impact of Water Supply and Sewerage Projects on Property Values

I have just had the opportunity of reading your memo of July 6th, 1973 on the above-mentioned subject together with the attached "Summary and Conclusions" of the consultants report and would like to comment on this section of the report and the conclusions which you have drawn from it.

In the case of the Nairobi water supply investment I note that the consultants conclude that their results show strong positive effects on property values, that the single most important change which took place during the period in question was extension of city water to the area, and that while the estimates are not as "clean" as they need be, they show a marked effect of water supply improvements on land values.

In the case of the Nairobi sewerage projects, the consultants were concerned that although there were marked increases in property values following the installation of sewers, they could not separate the increased value to occupiers of land because they can now dispose of wastewater more efficiently from the potential gains from subdivision of properties. Since the subdivision of properties was the direct result of higher density zoning made possible by the construction of the sewerage system, it is difficult to understand why increases in property values arising therefrom should not be considered as benefits arising from the construction of the system.

In the case of Kuala Lumpur, it is noted that there were not enough observations of sales in appropriate places to place any confidence in statistical results. However, the consultant did not attempt to match up data from records of house sales, records of property characteristics and sewerage hookup data while in the field, assuming that a good matchup would occur because exhaustive data had been collected. On return to the U.S., analysis of data revealed insufficient matchup and specifically that no sales data had been collected on sales of properties in the control area which had been previously sold before 1961. This raises the question of whether a better planned and controlled data collection program in the field would not have provided sufficient data for reliable statistical analysis.

Since in my opinion, the results of the Nairobi study are positive and there is a strong suspicion that those from Kuala Lumpur are inconclusive because of poor methodology, I wonder if it is not premature to write off this possible method of benefit measurement?

J. Warford

- 2 -

July 12, 1973

I was convinced even before leaving the private sector that sanitary engineers, in order to compete for project priority for environmental or public health projects versus the other sector projects, will have to justify their projects on the same basis as economists have done in other sectors, i.e. with benefit/cost ratios. I believe that this will continue to be the case, even if various weighting factors are introduced by the Bank or others to take into account income redistribution or other means of alleviating poverty. Hence my reluctance to see this particular method of benefit/cost analysis abandoned if there is any possibility that it can be further developed into a workable procedure.

cleared with and cc: Thys  
cc: Messr. Wyatt  
EMENA Files  
Division File



# Record Removal Notice



<b>File Title</b> Operations - Research 1972 / 1974 Correspondence - Volume 4		<b>Barcode No.</b>  30045540		
<b>Document Date</b> 12 July, 1973	<b>Document Type</b> Letter			
<b>Correspondents / Participants</b> To: Professor Gian S. Sahota, Ministry of Finance From: Jean-Pierre Jallade, Central Projects Staff, Education Department				
<b>Subject / Title</b> Consultancy for case-study on education finance				
<b>Exception(s)</b> Personal Information				
<b>Additional Comments</b>		<p>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.</p> <table border="1"> <tr> <td><b>Withdrawn by</b> Sherrine M. Thompson</td> <td><b>Date</b> December 28, 2017</td> </tr> </table>	<b>Withdrawn by</b> Sherrine M. Thompson	<b>Date</b> December 28, 2017
<b>Withdrawn by</b> Sherrine M. Thompson	<b>Date</b> December 28, 2017			

## OFFICE MEMORANDUM

TO: Files

DATE: July 12, 1973

FROM: Orv Grimes, ECDRB *OG*SUBJECT: Conversation with Dr. Ron Crowley

1. Dr. Ron Crowley, Director of Research Programmes in the Canadian Ministry of State for Urban Affairs, visited me today to discuss the Division's work program and how it relates to that of his staff. We decided that our units are interested in very much the same research agenda but in different country contexts (advanced and highly urbanized versus developing and urbanizing).
2. Three main research-related units operate within the Ministry. A Coordination unit has a body of experts in urban design and administration giving advice to Canadian cities on how to achieve policy goals in their particular political and social contexts. A Policy group examines implications of Federal government policies in selected metropolitan areas. Finally, the Research unit, which according to Dr. Crowley currently has a "very large" external research budget, concentrates its activities in 9 chief problem areas: (a) urban public economy and delivery of urban public services; (b) large scale impact models of all Canadian cities; (c) housing and land markets; (d) environmental quality; (e) man, technology and environment (architects and planners); (f) values and systems (demand for urban services); (g) urban government systems; (h) growth, demography, migration and population forecasting; and (i) urban information systems.
3. Dr. Crowley also spoke with Mike Wasylenko about the Urban Public Finance project and with John English. I promised to send him a copy of the research on betterment value when it is finished.

OFG:ap

Cc.: Mr. Keare

Mr. Douglas H. Keare, Chief, ECDRB

July 12, 1973

Orv Grimes, ECDRB

Inclusion of Taiwan in Urban Land Research

1. In a meeting with Harold Messenger and Zia Kalim (East Asia and Pacific) this morning, I outlined the scope and purpose of the proposed research project on urban land taxation and land use policies, giving them a copy of the mini-proposal dated March 26, 1973 and mentioning that we wanted to alert them as early as possible to our desire to include Taiwan in the research. Messenger checked with Ray Goodman and told me there would be no problem in carrying out the kind of research we envisaged in Taiwan. All aspects of the research -- contact with local officials and institutions, possible hiring of consultants in the field, follow-up missions to discuss findings -- seemed in no way to disturb current Bank policy vis-a-vis Taiwan. URED would of course keep the Regional Office continually informed and consult with it when necessary on arrangements including preparation of terms of reference.

  
OFG:ap

Mr. Mervyn L. Weiner, ASPDR

July 11, 1973

Ravi Gulhati, ECDDR Ravi Gulhati

Plans for future research

1. A few months ago you attended a meeting of the Development Economics Department. Out of this exchange there emerged an idea which should be pursued - namely the need to have potential users of our research contribute to the planning of it. Subsequently, Colin Bruce sent me a note making some suggestions and enclosing a memorandum from Bob Picciotto. We would like very much to sustain this contact with you and your staff.

2. It is not too early for us to begin to plan the outlines of our work program for FY75. In drawing up this program, we would like very much to obtain the advice of your Division Chiefs, C. Bruce and yourself. In the first place, we would like to make sure that you are fully aware of the research that we are engaged on currently. To do this, we can arrange to meet with you, if you consider it appropriate, or we can send you written accounts of the work programs of the five divisions in our Department. The next step would then be for you and your colleagues to list subjects on which research should be undertaken in FY75 and to make assessment of relative priorities among these topics. (In other words for all of you to do what Bob Picciotto attempted in his memo dated May 4, 1973 to Colin Bruce). We can then meet again to discuss the results of this exercise.

3. You may wish to invite Jean Baneth to join this planning enterprise. He is already familiar with some of our present work by virtue of his participation in the Research Committee.

4. Do give me a ring when you have had a chance to reflect on this matter.

cc. Mr. Stevenson (o/r)  
Division Chiefs  
Mr. Colin Bruce

RG/mo

*W.P. Renshaw*

Mr. J. Warford

July 11, 1973

R. Schkolnick

Costa Rica Telecommunications Case Study.  
First Progress Report

Attached please find the report of the reference.

The original draft of May 3 has been improved formally, computations have been reviewed, and, on the basis of discussions with ICE engineers during my last trip to Costa Rica, some corrections have been made. The results and conclusions remain, however, virtually unchanged.

Attachment

cc: Messrs. Rovani, Vasudevan

*R* RSchkolnick/mds

Blue book, files

S.P. Research

Mr. S. Littlechild (Consultant)

July 11, 1973

F. Howell

COSTA RICA - Telecommunications Research Project  
Terms of Reference

You should plan to arrive in Washington on July 26, to spend one full day at the Bank prior to traveling to Costa Rica with Mr. Schkolnick on July 29. You will remain in Costa Rica for approximately one week, returning to Washington and spending a further week at the Bank to write a report on your mission.

The object of the mission will be to assist in the formulation of a research project designed to evaluate the impact of the rural telecommunications program in Costa Rica, with a view to providing guidance for its future development.

The research project will be carried out primarily by members of the Economics Institute of the University of Costa Rica. You will advise them on ways in which the nature of the demand for rural telephones may be analyzed, with emphasis on the survey of present telephone usage and the private and external benefits thereby derived, and the lessons this affords for investment planning in the sector. Advice on the determination of costs of rural telecommunications is not in your terms of reference.

A particular question, on which the Costa Ricans will undoubtedly require guidance, concerns the importance of "system externalities." You should explain to them the nature of this concept, and try to ascertain whether econometric or other tests of the magnitude of these effects are justified or feasible for rural telecommunications.

You will agree with the Costa Ricans on a broad outline of the research strategy to be followed, and, upon your return to Washington, will write a report that details your findings; this will be sent to Costa Rica for confirmation.

JJ  
JWarford:pjk

Cleared with and cc: Mr. Vasudevan  
Mr. Schkolnick  
Mr. Chaparro (Lat. America & Caribbean)



July 11, 1973

Tourism & Recreation Research Unit  
Department of Geography  
University of Edinburgh  
EDINBURGH  
Midlothian, Scotland, U.K.

Attention: Mr. Brian S. Duffield

Dear Sirs:

I understand from the Travel Trade Gazette, March 23, 1973 issue, that the Scottish Tourist Board has asked the University to undertake a study of the costs and benefits associated with the development of tourism.

The Tourism Projects Department of the World Bank is interested to have further information on this study, and would appreciate further communication on the subject.

Yours sincerely,

Sheila Twohig  
Research Assistant

ST/em

July 11, 1973

Drs. J.M.G. van Damme  
Manager  
WHO International Reference Centre  
for Community Water Supply  
Parkweg 13, the Hague  
Netherlands

Dear Hans:

Thank you very much for your letter of July 4, enclosing your fourth annual report. I look forward to receiving the other publications.

I apologize for the delay in sending the material I had promised you in Lausanne, and now enclose two items that may be of interest to you. The first is a bibliography produced as part of a study we commissioned on the problems of evaluating and operating village water supplies. The full report is presently being reviewed within the Bank, and may be released at some future date.

The second item, which is in draft form, is the summary chapter of a study on the impact of water/sewerage investments on property values. The object of this research was to see if the increase in property values following such investments could possibly be used as a routine method of benefit measurement in project appraisal. I think we have to conclude that in view of the tremendous statistical problems encountered, this is not feasible, although a number of lessons afforded by the study may assist project evaluation in some circumstances. I will send you a copy of the full report as soon as it is completed, which should be within a couple of weeks.

To return to the subject of health benefits, Dick Frankel presented his research proposal to us a couple of weeks ago, and we are at present considering the possibility of financing part of his study in North East Thailand. I will keep you informed of progress in this area, and would be grateful if you could also let us know if you become aware of the commencement of impact studies by anyone else.

With best wishes.

Sincerely yours,

J. J. Warford

Enclosures

JJWarford:pjk

July 11, 1973

Dear Mr. Popovic:

As you know the Development Research Center of the Bank is engaged in a research project which is developing a dynamic model for the distribution of income in Yugoslavia. The research is being conducted by Professor Irma Adelman and Ms. Laura D'Andrea Tyson and their work on the Yugoslavia model is now approaching the stage of estimating the various econometric functions. For this work to proceed we will need input-output data for individual republics. These estimates cannot be obtained from any of the standard statistical publications, but we understand that the Federal Institute of Statistics is currently working on republican input-output coefficients for Yugoslavia. One of the researchers on the Yugoslavia model, Ms. Laura D'Andrea Tyson, met Mr. N. Petrovic of the Federal Institute of Statistics in November 1972 and was told that this work was in progress and would probably be completed some time during 1973.

I am writing to enquire if the regional input-output tables are available and to request your assistance in obtaining these tables for our research. In case the work is still incomplete we would be very grateful for the preliminary versions of the tables. We will undertake to revise our results in accordance with any changes that may be made in the final version. I hope it will be possible to obtain the information requested as soon as possible. On present plan we hope to work on the Yugoslavia model through the summer and the regional input-output tables are a necessary ingredient.

Needless to say, we will be sending you the draft versions of the research project as soon as they are completed and will look forward to your comments.

With best personal regards,

Sincerely yours,

EC

Hans-Eberhard Köpp  
Acting Chief, Division 1C  
Europe, Middle East and North Africa Region

Mr. Gavra Popvic  
Assistant Federal Secretary for Finance  
Federal Secretariat for Finance  
Belgrade, Yugoslavia

Cleared with and cc: Mr. Ahluwalia

Mr. Douglas H. Keare , Dev. Economics

July 10, 1973

Ved P. Gandhi, VPG  
EANVP, Econ.

DRAFT REPORT: The Urban Lending Program of the IBRD --  
The Case for Comparative Urban Information

1. This report has been passed on to me by Mr. Stanley Please for my comments and here they are for whatever they are worth.
2. This report by Messrs. Bahl and Morss is an impressive document and both you and the authors must be congratulated on undertaking this extensive survey of the data available for four urban areas across the globe in such a short time.
3. The authors of the report highlight many uses of the comparative urban data to the Bank; in my opinion, the most useful, at least in the short run, would be the generation of the "benchmarks" or the "norms" for various amenity levels. I am, however, much less impressed by various other arguments given by the authors in favor of the collection of comparative urban data. For instance, the argument that the Bank will be able to decide on the basis of these data whether to invest in city A or city B and, in addition, whether to invest in sector X or sector Y in a particular city, clearly presumes that the Bank does make its lending decisions in a scientific and schematic fashion. Even if this were assumed to be true, in my opinion the "adequacy" or "inadequacy" of important services available in a certain city will still have to be assessed on some kind of cross-section "norm".
4. While it is admitted that comparative urban data would be useful in generating the "norms", it must be warned that these "norms", to be relevant, will have to be updated on a regular basis as structural changes are likely to take place in the development of various cities. The authors' argument that the updating of urban data will also help the Bank to evaluate the role of its own projects in a given city is really less important in this general context. Hopefully, the project supervision missions will generate the necessary data for that particular purpose.
5. If it is accepted that the generation of cross-section "norms" for various urban amenity levels will be the most useful "operational" aspect of the collection of these data, it would seem necessary to ensure two things:
  - (a) that adequate data are available; and,
  - (b) that the available data are comparable.
6. The authors of the report are very conscious of these problems and rightly emphasize the necessary warnings.

7. The authors point out that they were somewhat lucky in so far as many important data were readily available "in considerable detail for the cities studied here" (and the reason for this could be that three of four cities are country capitals and two of them are governed by the central governments which often are more resourceful). Despite the luck with their sample, they found "serious deficiencies" in such important statistics as the levels of income, income distribution, employment, public finances, total housing stocks, vehicle use and commuter flows, fertility and mortality statistics, gross migratory flows, etc., (p. 18). A perusal of Part II of their report further confirms that most comprehensive information often available to them related to population, climate and typology, rainfall and temperatures, speed and direction of winds, as well as certain aspects of education, transportation, housing and health services particularly wherever they were provided by the public sector.

8. The authors also point out many serious problems relating to the comparability of data (pp. 21-23). This fact cannot be ignored particularly when, as mentioned earlier, the major output of the comparative urban data project will be the generation of cross-section "norms".

9. I believe that the research for this report was initiated by you as a pilot project with the main objective of learning, among other things, about the feasibility of undertaking a major extension of the urban data collection exercise and I would think that it has served its purpose. However, I must confess that what you have concluded from it is different from what I seem to have learnt from it.

10. What I have learnt from the reading of the report is that the initial data collection effort will be extremely laborious and time consuming and even then some of the most relevant data will not be available. Having done that, the lack of comparability will make the task of generating cross-section "norms" extremely difficult. Even when cross-section "norms" have been generated they will help, as always, only in raising relevant questions rather than answering them. I would hate to use cross-section data to devise guidelines for the pricing of public services, which the authors seem to suggest, particularly because the income estimates are likely to be simply "informed guesses" in many places. Moreover, such "norms" will have to be continuously updated if we are not to be asking "wrong" questions. (The proposed annual investment of \$200,000, given certain information in your forwarding note, would yield a five yearly updating cycle for 40 cities).

11. Another lesson which I have learnt from this pilot project is that there is no use trying to be exhaustive in the collection of urban data. The bureaucracies of the urban centers in developing countries are just not ready for it. The authors of the report have found, and this I find useful information, that, for the cities surveyed, relatively

more data are available on some important public services (i.e., education, transportation, health and housing). In view of the Bank's recent interest in the redistributive aspects of public expenditures, it would seem desirable to concentrate on the collection of data primarily on these services and relate them to income distribution. This research should be coordinated with the work program of Oktay's Division.

12. To sum up: The "inadequate" availability of data for the urban areas does not come as a surprise to me. I have always experienced this whenever I have attempted to work on the finances of local authorities myself. Further, the fact that these data are not strictly comparable does not surprise me either as my own handling of public expenditure data taught me this lesson early in the game. This suggests to me that I should not get overly excited about devising cross-section "norms" which, we all know, would never be very scientific or even dependable.

13. Having said this, I will not deny the usefulness of comparative data for raising certain relevant questions in our day-to-day work provided massive efforts have not to be invested into it. Forty to fifty countries certainly appear to me to be a very large sample. (It could be justified if one wanted to run regressions, but, then, one must be sure of the comparability of one's observations.) Also, to my mind, the collection of all kinds of data, including the speed and direction of the winds, suggests a lack of priority. I would, therefore, plead for selectivity instead of comprehensiveness in developing the indicators of the "quality of life" as well as the choice of the urban areas to be covered in the next phase of research. In this way it will also be possible to do a more effective job when it comes to keeping the data files up-to-date.

14. I feel that future research in this area should concentrate primarily on the indices of public services for which, as the report suggests, the data are more likely to be available. Besides, a sample of twenty cities appropriately chosen should be more than enough to help us raise the relevant questions in our day-to-day operations.

cc: Mr. Stanley Please, Chief Econ., EANVP  
Mr. Oktay Yenel, Dev. Economics

VPGandhi:ebw

Mr. Xavier de la Renaudière

July 9, 1973

Richard M. Westebbe

Research Report: Sites and Services: The Experience and Potential.

1. The Sites and Services Research Report can serve as a good background document for Bank Operational people interested in starting a Sites and Services project, although the report is not easy to read. It contains an encyclopedic quantity of information of Sites and Services schemes in various parts of the world, including in particular Senegal and Zambia in Africa. Some of the information could have immediate relevance for public utility projects. For example, page 19 cites the minimal water requirements established by four international agencies for public fountains, including liters per person per day, number of persons per standpipe, and maximum distance to the fountain. I recall we spent a good deal of time trying to obtain just such information for the Libreville Water Supply Project.

2. Part 1 of the report discusses the nature of Sites and Services schemes, global experience with them including administrative, financial, economic and physical aspects. Policy objectives are discussed in terms of improving the welfare of low-income groups, directing and controlling urban land uses and speculation, and orienting housing agencies to becoming more self-sustaining. Five project objectives are set forth. These are: limitations of subsidies, facilitating private housing investments, using organized occupant groups, assisting the economic development of occupants, and assuring skilled management and proper institutional development. Finally, the report discusses the main considerations to take into account in planning for Sites and Services projects. The annexes discuss three case studies in detail, and provide cursory information on programs in a number of other countries.

3. The covering memorandum contains a series of criticisms of the report which are difficult to evaluate by anyone who has not been involved in the formulation and supervision work. It seems the authors, at least in the narrower sense, did the research required in the terms of reference (see paragraph 1 of covering memo), but the applicability of the results as a basis for general conclusions may be questioned. The criticism also cites the lack of attention to socio-economic-political influences in evaluating the effectiveness of Sites and Services programs. In my view this is not a fatal flaw as the three programs studied in detail (Senegal, Zambia and Chile) probably did not generate the kind of information that is necessary to make such an analysis. The authors would not have had time to do original work of this kind. Further, there is a rich, published literature by social scientists covering these aspects of Sites and Services schemes. If you agree, copies of the report will be requested for distribution to our divisions.

RWestebbe:jod

Professor Tetteh Kofi, Consultant

July 9, 1973

Shamsher Singh, Chief, EPD/CE

Terms of Reference: IBRD Study on Comparative Analysis of Resource Allocation in Cocoa Production (RPO 281)

1. You will contribute to the development of empirical methodology for measuring comparative advantage and to the identification of crops alternative to cocoa in the countries under study.
2. You will arrange for research collaborators in each of these countries and coordinate their research work. The research collaborators should be instructed to mail all the completed data forms and other collected information directly to the Bank. (Copies when needed will be sent from the Bank to you at Stanford University.)
3. You will collaborate with the Bank staff in designing and finalizing the tables to be used for data collection. These tables should be ready around mid-July, 1973; they should be appropriately distributed to the Departments concerned in the Bank and to the outside research collaborators.
4. Beginning about July 16, 1973, your place of work will be at the Bank for a period of about two to three weeks.
5. For purposes of filling data gaps, you should be prepared to go on a mission to some or all of the five West African countries: Ivory Coast, Ghana, Togo, Nigeria and Cameroon. The timing of this mission, depending on the progress of the ground-work done in the Bank, is tentatively scheduled for August 20 to September 8, 1973.
6. After returning from West Africa, your place of work will again be at the Bank for two weeks to collaborate with the Bank staff on data processing and other detailed analyses required by the study.
7. You will draft shadow chapters on some of the countries under study and put the various parts of the study into an integrated report around mid-November.
8. You should be prepared to visit the Bank once or twice as necessary during the final stages of the study.

PYeung/SSingh:jl





INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Cable Address - INTBAFRAD

INTERNATIONAL DEVELOPMENT ASSOCIATION

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1818 H Street, N.W., Washington, D. C. 20433, U.S.A.

Area Code 202 • Telephone - EX-2510 3-6360



*O.P. Renard fellow*

July 9, 1973

Dear Franz:

I would like to thank you very much for your letter of June 20. It is very good to know that you will be able to participate in the proposed Regional Forestry Study. Meanwhile, our plans for this study have further evolved and the entire mission will consist of three to four experts and will take place in the early part of 1974.

I have sent copies of your letter to Mr. Shamsher Singh, Chief of the Commodity and Export Projections Division of the Economic Analysis and Projections Department, and to Mr. Francis van Gigh, Section Chief, Agriculture Projects Division of the Western Africa Projects Department. They are jointly responsible for the conduct of the study. From my conversations with them it appears that your participation will be highly appreciated and that the timing proposed by you will be roughly acceptable. They will be in touch with you about the preparation of the mission.

As you have seen, the Ivory Coast Forestry Report drew detailed and, on the whole, favorable comment from the Government. We have asked the Government's clearance for distribution of the report to our Board of Directors. This implies that we will translate the report into English. We have not yet obtained the Government's agreement to this proposal.

With best regards.

Yours sincerely,

Cornelis J. Jansen  
Senior Economist  
Country Programs Department  
Western Africa Region

Dr. Franz Schmithüsen  
Hasenbergsteige 9  
9000 Stuttgart 1  
Federal Republic  
of Germany

*C.J. Jansen/hlm*

*cc: Mr. van Gigh  
Singh/ Takeuchi  
de Vries, Westebbe  
Buser*

O.P. Research  
July 8, 1973

AIR MAIL

Professor S. C. Littlechild  
University of Aston Management Centre  
Residential Centre  
36 Wake Green Road  
Moseley  
Birmingham B 13 9PD  
England

Dear Steve:

Jerry suggests that we visit Costa Rica for one week between July 30 and August 3. We would leave Washington on Sunday, July 29, and leave San Jose on Saturday, August 4.

It would be adequate if you could be in the Bank on Friday 27 (i.e., you should travel to Washington the 26th). It would also be adequate if you could spend about one week in Washington after the visit to Costa Rica (i.e., until August 10).

I will appreciate it if you will let me know if this is convenient to you.

(Jerry will call you later to give you further details.)

Your terms of reference will be defined later on, but one of your tasks will be to discuss with the people of the Economics Institute of the University, the proposed Study on Rural Telephony.

Hoping to see you soon, I remain

Sincerely yours,

Raul Schkolnick  
Public Utilities Department

cc: Mr. Warford  
Blue book, files

Richard M. Westebbe

July 6, 1973

R. Vaurs

IBRD Research Project on Cocoa

1. The seminar started on Wednesday, June 20, 1973. Chaired by J.P. Hayes, it mainly gathered staff members from Economics and Western Africa Departments and two consultants, Professors S.R. Pearson and J. D. Stregker. The latter described the methodology in a first session on Wednesday morning. Attendants reacted on the afternoon session. A Thursday session concluded about the practical implications of the project. I did not attend the last session.

2. The research project was voted by the Board with McNamara's recommendation. Its goal can be described as follows: some Bank's projects develop export production for one commodity (cocoa) inside a given country. Consequently, world market equilibrium might be modified and affect the other producers. Moreover, from the World Bank's point of view, comparative advantages should be appraised between developing production among competing producers. This comparison should include others existing and/or potential opportunities to export (coffee, wood, petroleum, etc.).

3. The research project chooses tea and cocoa for a practical test case to measure these comparative advantages. For cocoa, comparison could be limited to four African countries: Nigeria, Ghana, Ivory Coast, and Cameroon. Some preliminary results are supposed to be available at the end of 1973.

4. The study could use three criteria of comparison -- Net Social Profitability (NSP), Domestic Resource Cost of Foreign Exchange Earned or Saved, and Social Marginal Productivity of Capital. Professor S.R. Pearson argued that these three criteria would give the same ranking order and proposed to use NSP.

5. NSP can be defined as the net gain (or loss) associated with a given economic activity (cocoa) when all commodity outputs produced and material inputs and factors of production employed are evaluated at their social opportunity costs (through the use of shadow prices) and when all external effects on the domestic economy are given a social evaluation and included in the measure. NSP for cocoa and four or five main commodities will be weighted by the shadow price of foreign exchange in each country. This ratio allows to rank countries from the more to the less dependent on cocoa production.

6. Data requirements are obvious and most of the discussions concentrated on practical possibilities for shadow price estimates. The case of linear programming models was rejected but with a possibility of comparison in the case of the Ivory Coast between LP model results and separated evaluations. The latter method is in process for some African countries (Nigeria). R.E. Rowe stated how unreal this project looked to him. Besides a total lack of information, cocoa sector escaped mostly to Bank's interventions. Bank's present policy is to improve average productivity by demonstrative effect than to increase output. Others argued against the feasibility for practical choice for cocoa projects between four countries.

RVaurs:mw

cc: Messrs. Steckhan, den Tuinder, Gué, Jansen

Mr. Ravi Gulhati

July 6, 1973

Douglas H. Keare

Research by Development Economics Department  
for the Regional Offices

Please refer to my memorandum of June 5 and your response.  
(See attachment.)

I have met with Tim and Shlomo, and we have agreed to recommend to you the following course of action:

- 1) Respond to Colin Bruce's note of May 14:
  - a) stating that it is a very useful beginning;
  - b) suggesting that they request all divisions in the Projects Department to submit statements of priority research needs similar to that provided by Bob Picciotto (Memorandum of May 4) and that Messrs. Weiner and Baneth, and perhaps others, attempt to place all suggestions in some sort of priority relationship; and
  - c) offering at that stage to convene a meeting.

2) This meeting would be attended by Messrs. Weiner, Baneth, Bruce and at least some projects division chiefs and senior economists from the Asia Regional Office, as well as yourself, Sandy and DED Division Chiefs. We would attempt to explain briefly relevant aspects of ongoing and planned research efforts which might "contribute" in some of the suggested areas. In addition, and more important, we would attempt to identify from one to three topics on which this Department would attempt to formulate a research effort which is directly responsive to the expressed concerns of the Regional Office.

3) As soon as we have an arrangement/procedure which appears to be working with the Asia Regional Office, we should attempt to extend it to the other Regional Offices.

DHK per OG  
DHKeare:jmt

attachment

cc: Mr. King  
Mr. Reutlinger  
URED Division Members

Messrs. Shipman, Krombach, Morse, Kalbermatten,  
Rajagopalan, Thys

July 6, 1973

J. J. Warford

Research Project: Impact of Water Supply and Sewerage Projects  
on Property Values

You may recall that this research project was initiated in order to test whether or not the impact of water and sewerage projects on property values could be used routinely as a means of benefit measurement in project appraisals. The conclusion, based upon the tremendous data problems encountered in carrying out case studies in Nairobi and Kuala Lumpur, must be that it cannot. Very briefly, the problem in Nairobi turned out to be that it was impossible to disentangle the effects of water and sewerage investments from other changes (in this case rezoning), while in Kuala Lumpur, there were simply not enough observations of sales in appropriate areas to place any confidence in the statistical results.

Attached is Chapter I of the consultant's report, which summarizes the rationale for the study, the empirical method, and statistical results. In view of the conclusion as to the practical usefulness of the approach for project appraisal, the chapters detailing various aspects of the study are somewhat academic and will only be circulated at this time upon request.

It is unfortunate that we have been unable to substantiate statistically the intuitively sensible view that environmental improvements tend to increase property values, for the approach used was probably the only feasible method of indirectly estimating the economic benefits of urban water and sewerage projects. Since it is unlikely that we will find any cities in the developing world with better data than we found in Nairobi and Kuala Lumpur, I think we can now assume quite safely that the only way in which water engineers can demonstrate to budgetary authorities the economic worth of investments in the sector is to make sure that consumers and potential consumers are given the opportunity to convey this message directly, through the prices charged for connections and actual water use. Pricing, rather than cost-benefit analysis, should therefore continue to be our main line of attack in the improvement of investment decisions in the sector.

JJWarford:pjk

*D.P. Kenecah*

**OUTGOING WIRE**

TO: PETER ADY  
AGRARIAN  
OXFORD

DATE: JULY 6 1973

CLASS OF SERVICE: LT

COUNTRY: (ENGLAND)

TEXT:  
Cable No.: RE YOUR PROPOSAL ON COMMODITY ORIENTED PLANNING  
MODELS (STOP) ALTHOUGH THERE WAS CONSIDERABLE INTEREST  
IN APPROACH REGRET TO INFORM YOU THAT RESEARCH COMMITTEE  
FELT PROPOSAL COULD NOT BE ACCOMMODATED IN CURRENT  
PRIORITIES (STOP) LABYS INFORMED BY TELEPHONE (STOP)  
CHENERY WILL WRITE SHORTLY WITH FURTHER DETAIL

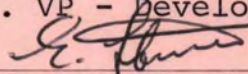
REGARDS  
ANANDARUP RAY  
INTBAFRAD

**NOT TO BE TRANSMITTED**

AUTHORIZED BY:

NAME Ernest Stern

DEPT. Off. VP - Development Policy

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(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE: ARay/EStern/lm

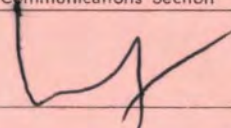
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Cleared with & cc: Mr. E. Stern  
cc: Messrs. Chenery, Hayes,  
Tims, N. Carter,  
S. Singh

For Use By Communications Section

Checked for Dispatch: 

REFERENCE: UKAY/EGSCKU/JM  
 SIGNATURE: [Handwritten signature]  
 OFF: AB - DEVELOPMENT BOARD  
 NAME: ELMER STERN  
 AUTHORIZED BY:

cc: Messrs. S. Stern, J. M. I. Stern, C. Stern, W. Stern & cc: Mr. E. Stern  
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 IN YOUR PROPOSAL ON COMMODITY ORIENTED TRAINING

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ASSOCIATION INTERNATIONAL DEVELOPMENT GROUP	RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL BANK FOR	COOPERATION INTERNATIONAL FINANCE
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*S.P. Research Files: Air Transport*

# Transport & Tourism Technicians Limited

research planning development consultancy

Date: 6 July 1973

Your reference:

In reply please quote:

Chichester House  
278-282 High Holborn  
LONDON  
WC1V 7EX  
Telephone. 01-242 9111  
Cables: Tourtec London WC1  
Telex 261854

Andrew Hayman Esq  
Tourism Projects Department  
International Bank for Reconstruction &  
Development  
1818 H Street  
WASHINGTON DC 20433  
U S A

Tourism Projects Department	
Date Received:	JUL 11 1973
Replied by:	AR by phone July 12
Date Action Taken:	July 12, 1973

*See Andreu*

Further to my letter of 4 July, I am now sending the following documents:

- Draft of Section A (not fully completed)
- Draft of Section C
- Synopsis of proposed contents of Section E

As explained in my note of 4 July, we have a problem over Section E because of the paucity of replies to our Questionnaire to LDC's and other countries on this subject. Assuming you have a number of Cost/benefit studies in Washington I propose that if I can have access to these in Washington I can sit down there for a couple of days and complete this. This I suggest would in any case be the best way to do this Section as this would be a controversial, as well as lengthy, Section and it would enable me to agree with you which are the angles to have most effort allocated to them.

Re Section F, I would like to leave this over for the moment because, as I say, replies have been so poor - but are still trickling in - that there is really no point in doing this Section on the available material. It occurs to me that a "gentle hint" from you to the non-reply countries (if you feel able to do this) might hurry some of them up and we could then produce this as a "supplement" to the main Study?

Continued/...



Telephone 01 242 9111  
Central Tower, Leeson Walk  
Leeson, Dublin 1

6 July 1973

International Bank for Reconstruction & Development  
1818 H Street  
WASHINGTON DC 20039  
U.S.A.

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Draft of Section B

Synopsis of proposed contents of Section C

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SECTION  
COMMUNICATIONS

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RECEIVED

Continued...

Andrew Hayman Esq

-2-


6 July 1973

This then leaves Sections G and H which are mainly short "reporting" Sections which I propose that we complete and send to you with the ten copies of the draft.

We propose next week to finalise the Study and have the ten copies of the draft run off, but I wonder if it is alright for me to come across as planned on about the 17th July - or whether you will need to have the ten draft copies for a clear week before I arrive?

Regards as always



 M H Curtis

Enc

Mr. Douglas H. Keare

July 6, 1973

O. F. Grimes

Research Committee Meeting of Thursday July 5: Malaysia

1. Ravi Gulhati reported to me on Friday July 6 that at the meeting of the Research Committee the previous day the Committee had reconsidered its earlier positions and decided to " earmark " an (unspecified) amount of funds for research projects previously deferred. One of these projects is Urban and Regional Subsystems in Malaysia. (The Capacity Utilization Study on Malaysia had already been resubmitted to the Committee and was acted upon favorably at this meeting). No discussion of the substance of the proposals was of course undertaken; the Committee simply encouraged their resubmission.

2. I checked with Anandarup Ray about whether there would be a meeting of the Committee before September. There probably will, in late July or during the first week of August. In the likely event there is a meeting at that time, Urban and Regional Subsystems in Malaysia would have high priority. A redraft of the proposal could first be cleared informally with Moeen Qureshi toward the end of July to (hopefully) avoid another formal review process. With his approval it could then be sent directly to the Committee for action at the August meeting.

*ofg*  
 OFGrimes:ap

cc.: Mr. English

*D.P. Research*

July 5, 1973

Mr. Keith Shaw  
Administrative Director  
Overseas Consultancy Service  
30 Millbank  
London SW1P 4RD  
England

Standards of Urban Electricity Distribution  
Research Project

Dear Mr. Shaw:

Thank you for your letter of June 27, 1973.

I agree that it would be advantageous to slightly rearrange the procedural order of the Terms of Reference. I would therefore be pleased to receive by early August 1973 a short Review Paper based on a preliminary scan of the available literature and all knowledge of the subject already possessed by members of the team. I understand that the cost per working day for each member of the team will be \$200, including your overheads. The formal contract, unfortunately, is not likely to reach you until sometime during the week commencing July 16 in that, from tomorrow, I shall be out of town.

What steps will be taken after receipt of the Review Paper and when these will be taken will depend upon the content of the Paper, the availability of Bank staff for discussions and what arrangements we can make for the team to visit some Bank borrowers and other utilities. I will be in touch with you on these issues and the detailed queries which you raise in your letter after I return to Washington.

Sincerely yours,

T. W. Berrie  
Power Economics Advisor  
Public Utilities Department

*TWB*  
TWBerrie:pfa

cc: Messrs. van Gent, Ray, Dunkerley, Rovani, Howell, Anderson.

Ref: Misc 3 - 40

O.P. Research

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COMMUNICATIONS  
SECTION

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Distributions:

Mr. Gulhati

Mr. Stevenson

July 4, 1973

GULHATI

INTBAFRAD

WASHINGTONDCUSA

THANK YOU INFORMATION REGARDING BANK RESEARCH  
 FOR MALAYSIA WILL TRY CONFINE MY DISCUSSIONS WITH  
 ROBLES TO BROADER ISSUES OF  
 OVERALL RESEARCH ASSUMING BANK HAS  
 NOT CHANGED VIEWS SUBSTANTIALLY SINCE MY  
 PREDEPARTURE DISCUSSIONS WITH REGISON AND AHLUWAHLIA  
 STOP GILMARTIN LEFT FOR KASHMIR DAY 1  
 ARRIVED  
 DELHI COPY MY  
 MEMORANDUM TO HIM MAILED TO YOU JUNE 29  
 REGARDS

HUGHES

R S. E5  
cc R S C4  
cc R S. N1  
✓ cc OP. Research

Anandarup Ray

July 3, 1973

D.S. Ballantine *DB*

Research Pamphlet

As requested in your Memorandum of June 19, 1973, I am enclosing some information about the research program of the Education Department.

Enclosure: a/s

JPJallade:mm

NOTE TO: Files

DATE: July 3, 1973

FROM: A. Hayman *AH*

SUBJECT: Air Transport Research

1. I called Mr. M. Curtis, Project Director, today.
2. He expects a virtually complete draft to be mailed by next weekend, July 7-8, in addition to those sections already received in rough draft.
3. I told Mr. Curtis that he should not contemplate a visit to Washington until at least one clear week after we have received the almost-complete draft.
4. Apparently, the study is progressing fairly well on the whole. However, as we might have expected, the question of costs and benefits of alternative aviation policies is proving the most complex and difficult.

AHayman/da

O P Research

July 3, 1973

Dr. Svetolik Popovic  
Director  
Institut za Ekonomiku Poljoprivrede  
Knez Milosa 26/11  
Beograd  
Yugoslavia

Dear Dr. Popovic,

I am pleased to inform you that the IBRD has approved the budget for the Study of Smallholder Strategies in Yugoslavia. We would like to carry out this study jointly with the Institute of Agricultural Economics as previously discussed between you, Mr. G. F. Donaldson and Mr. R. C. Rogers in April 1973. Professor J. W. Wysong and Mr. R. C. Rogers will carry out the Bank's part of the study.

... Enclosed are the proposed terms of a contract with your Institute for participation in this joint project. If the terms are acceptable to the Institute and if any additions or changes to these terms by the Institute are acceptable to the IBRD, a formal contract containing these terms will be extended to the Institute by the IBRD toward the end of this month. Your immediate attention to this matter would be greatly appreciated.

Yours sincerely,

Shlomo Reutlinger  
Division Chief  
Rural Development Division  
Development Economics Department

SReutlinger:coh  
Enclosure



## OFFICE MEMORANDUM

D  
P  
Research

TO: Mr. A. Ray

DATE: July 3, 1973

FROM: (signed) Pedro-Pablo Kuczynski  
Pedro-Pablo KuczynskiSUBJECT: Research Proposals on EEC Trade and Agricultural  
Policies: Impact on LDC's and Commodity  
Oriented Planning Model for Malaysia

1. I chaired a subcommittee meeting held on June 27 on the above two proposals. The other members of the panel were Messrs. Anand and Hablutzel. Messrs. Carter, Nusbaumer, Takeuchi and Hasan also attended.
2. The project on the EEC merits strong support. However, a number of matters need to be clarified in the submission to be considered by the Research Committee. Mr. Nusbaumer therefore agreed to present a new submission, which would include answers to the following questions:
  - (a) The methodology of the project. Since the various commodities are interconnected (e.g. feedgrains with meat with dairy), a somewhat more systematic approach is needed than that shown in the draft presentation. While a model is clearly not feasible for the budget proposed, a clear definition of some of the basic interrelations is needed. Mr. Carter drew attention to a Department of Commerce model which does this for the U.S. and might be a useful reference.
  - (b) The arrangement with the European collaborative institutions should be spelled out. It is not clear whether the external research component (about \$15,000) is really enough to do the job. Moreover, some definition of which institution would do what is necessary. Mr. Nusbaumer said that he could elaborate on this point now that he had recently returned from Europe.
3. Among the questions raised was whether the project includes a sufficient research element or whether it consists largely of collating existing sources. I personally feel and the Panel members agree with me that the subject is of sufficient importance that even if the original research component is small or negligible a useful job can be done on the subject. The proposal therefore deserves support provided the methodological and institutional points raised above are clarified.
4. The commodity-oriented planning model for Malaysia is an intellectually interesting proposal since it attempts to develop a country planning model starting from the major export commodities rather than from GNP, investment and savings; however, the panel believes that the submission requires substantial work before it can be considered by the committee. It is also clear that the research does not rate high priority in the Region's plans for research on Malaysia. These priorities are a study of smallholder agriculture, the pattern of industrial development, and the impact of public expenditure on income distribution. Of course, if the

July 3, 1973

project has sufficient methodological interest, abstracting from its possible application to Malaysia, it would still deserve consideration. However, it was felt that the equations in the material were far too general to permit the sort of conclusions that would be useful, for example, in allocating resources between the rubber and palm oil. Therefore, the techniques should be spelled out much more by Miss Ady. It is understood that somebody from the Economic Analysis & Projections Department will visit Oxford sometime this summer for a talk with Miss Ady.

cc: Members of the Research Committee  
Those listed above

الديوان القومي  
والمياه

NATIONAL  
DU TOURISME  
ET DU THERMALISME

Avenue Mohamed V - TUNIS

JLB/mm N° 0365 D.P.

Tunisie. Lettre 858 (cr 329 Hd)  
Vcc DP Recherche  
**BORDEREAU**  
DES PIÈCES TRANSMISES

A Monsieur A. ODONE

Tourism Projects Department

I. B. R. D. 1818 H. Street N.W.  
WASHINGTON, D.C. 20433

Imp. Ed-Najah - Tunis

DESIGNATION DES PIÈCES	NOMBRE de Pièces	OBSERVATIONS
- Compte-Rendu de la mission de M.M. ODONE et BAUER. <u>Objet</u> : Etude de l'Etat au secteur Touristique.	1	pour information.
TOTAL	1	

Tourism Projects Department  
Date Received: JUL 10 1973  
Replied by: \_\_\_\_\_  
Date Action taken: \_\_\_\_\_

[ 2 JUL. 1973

Reçu les pièces mentionnées  
ci-dessus

Tunis, le

*Le Directeur Général*  
de l'Office National du Tourisme  
et du Thermalisme  
Le Directeur du Proj[ect] de structure  
Touristique

*Belaid*  
Belaid

le 19

D.P. Research

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FROM: BANGKOK

ERAWAN BK387 --- TELEX NUMBER.

GULHATI PRAKASH

INTIAFRAD

WASHINGTON DC USA

JULY 2, 1973

JUL 2 8 39 AM 1973  
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SECTION

Distribution  
Mr. Gulhati  
Mr. Prakash  
Mr. Stevenson  
Mr. Goodman  
Mr. Sandberg

PATMANABAN OF MALAYSIAN PLANNING UNIT INFORMS ME UNIT AS WELL AS DAVID LIM HAVE BEEN PREPARING CAPACITY UTILIZATION COLLABORATION FOLLOWING MY CABLE OF JUNE 8 INFORMING THEM THAT RESEARCH COMMITTEE APPROVED OPTION THREE OF CAPACITY UTILIZATION PROJECT STOP PLANNING UNIT WISHES ME TO ADVISE ON OVERALL ECONOMIC RESEARCH PRIORITIES FOR MALAYSIA DURING MY VISIT STOP CAMS WISHES TO FINANCE CAPACITY UTILIZATION STUDY IN PHILLIPINES ON ASSUMPTION THAT BANK CARRIES METHODOLOGICAL OVERHEAD THROUGH OPTION THREE STOP ECAFE WISHES BANK ADVICE ON CAPACITY UTILIZATION STUDIES STOP I AM IN EXTREMELY AWKWARD SITUATION WOULD APPRECIATE EARLIEST ADVICE OF RESEARCH COMMITTEE DELIBERATIONS

HUGHES

O.P. Research

Mr. S.M. Tolbert

July 2, 1973

I.T. Christie

TERMS OF LENDING

Please find enclosed a copy of the first draft of the Terms of Lending Study for your perusal. The findings are interesting and I'll be happy to discuss the report at your convenience.

Enclosure

As stated above

ITChristie/da

Copies of draft report to:

Messrs. Glaessner, Odone, Simmons, Iizuka, Calkins and Bauer

TERMS OF LENDING STUDY

Terms of lending for hotels is a controversial subject. In many countries, a hotel is considered as a real estate investment and has access to long term mortgage financing at 20-30 year periods at moderate interest rates. This is because real estate is considered a "safe" investment one in which current returns are low but where there are prospects for capital appreciation and loans are properly protected. In other countries, the emphasis has been placed on the business of hotel-keeping (as distinct from the real estate aspect) and loans are made, particularly by the commercial banking sectors, on commercial terms from 5 to 15 years, often with renewal features included. The upper extreme, however, is higher than commercial banks would normally allow - and so this in itself is recognition of the fact that hotels may require terms of lending different from the average commercial enterprise. There is some difference of opinion within the Bank Group as to appropriate lending terms, the Tourism Projects and DFC Department of the Bank generally favoring longer terms and lower rates than IFC considers appropriate.

The objective of the present paper, the first stage of a two stage project, is to examine typical hotel projects to determine appropriate terms of lending giving recognition to all parties whose interests are involved in financing a hotel, but focusing on developing a sound policy for extending hotel credit in areas where the Bank Group is involved in tourism. In FY1974, a second stage of the project will be carried out and modifications and extensions as necessary will be made based on the findings of the incentives study which is due for completion in January, 1974.

## METHODOLOGY

Although values for parameters may be given, and certain elements fixed, the terms of lending suitable for a particular project will inevitably involve, at least in part, a judgmental decision. For this reason, it is not possible to develop a set of criteria or formulæ which will automatically indicate the "best" terms of lending for a particular project. Rather, it will only be possible to state whether a particular combination of terms of lending are appropriate for a particular project under a particular set of assumptions. With this limitation in mind, the terms of lending study will include the following:-

- A. Review of the literature of hotel investment and of lending practices
- B. Hotels as a service industry. A description of the characteristics of hotels as investment opportunities.
- C. Hotel models. Selection and definition of models based on hotels in developing countries including:
  - (a) investment costs
  - (b) occupancy curves
  - (c) pro forma statements of income and expense
  - (d) appropriate financial plans
- D. Terms of Lending. Identification of factors which can appropriately be called "terms of lending" and establishment of parameters and their values to be used in the study.
- E. Measurement criteria. Selection of ratios and tools to test the suitability of various terms of lending.

F. Projection of cash flow statements. Based on the hotel models selected and various terms of lending assumptions, cash flow statements will be prepared in order to analyze the effect of the terms of lending on individual projects.

G. Analysis of results and conclusions.

In general, cash flow projections for each of the models will be prepared under varying terms of lending assumptions. From these cash flows (and income statements), rates of return and ratios will be calculated. Each set of results will be measured against predetermined minimum values for the measurement criteria to decide whether the terms of lending are appropriate in individual cases. In particular, in selected areas, terms of lending will be relaxed to permit examination of the effects of softening loan terms on individual projects.

#### REVIEW OF THE LITERATURE

Beyond tourism planning studies and hotel feasibility studies, there is limited written material devoted to hotel investment in general, and practically nothing related more specifically to terms of lending. Accordingly the review of the literature was limited and produced only generalizations related to hotel investment. The publications reviewed are included in Annex 1.

#### CURRENT PRACTICE OF LENDING INSTITUTIONS

It has not been possible to review criteria for evaluation, current lending practice or the policies of institutions and agencies extending hotel credit. A partial list of lending terms, culled from IUOTO<sup>1/</sup> and OECD<sup>2/</sup> publications, as well as Bank sources, is attached as Annex 2. This

---

<sup>1/</sup> IUOTO - International Union of Official Travel Organizations  
<sup>2/</sup> OECD - Organization for Economic Cooperation and Development



information is suspect to the extent that it maybe outdated. Although it was not possible to visit them, the lending institutions, however, do constitute an important source of information on lending practice and policies and information on several such institutions would be a valuable input for the terms of lending study.

#### HOTELS AS A SERVICE INDUSTRY

Hotel services are intangible and are consumed at the same time as they are provided. A client must go to a hotel to enjoy its services whereas most products and services are distributed to customers. Above all, hotel services are highly personal. These factors combine to create a business whose characteristics are peculiar to the industry. These characteristics are discussed briefly below and in more detail in Annex 3.

Fixed assets account for the major portion of assets in a hotel and fixed charges are also high. A hotel's merchandise is in its fixed assets whereas most manufacturing industries hold their merchandise in inventory as current assets. A hotel's working capital, quantitatively, is of minor importance although its control is important. The profitability of hotels is often low, net profit after taxes amounting to 4-8% of sales. However, hotels are usually financed with long term debt secured by a mortgage (a debt/equity ratio of 70/30 is not uncommon) and the inherent leverage in this type of arrangement is considered one of the attractions of the industry. In addition, mainly because of high depreciation allowances, cash generation is considerable in hotels. Cash flow after servicing long-term debt can be used for a variety of corporate activities including expansion, debt reduction, servicing subordinate debt or even partially liquidating the enterprise - this, too is considered one of the advantages of hotels as an investment.

A new hotel takes from three to five years to build up "normal" occupancies. Since operating expenses are high and largely fixed (with breakeven points between 50-60% room occupancy in many cases) the early years can be difficult since the fixed charges must be paid and often

revenues generated fail to reach adequate levels. But even in a well established hotel the ratio of net book value to sales is typically lower than in most manufacturing industries, often being 150%. In addition, in the late years of a project's life, occupancy and room rates can decline and it is necessary to provide sufficient cash flow to allow for replacements to maintain the project's earning power.

Ownership and management of hotels are often in different hands. Hotels are basically improved real estate and entrepreneurs are often only interested in the earning power of the building but not in the operation of the building as a hotel. Consequently, the building is either leased or a management contract to manage it negotiated. Most hotel companies are in fact management companies whose business is either leasing hotels or managing them for others for a fee. This means that hotels must be capable of generating income such that there is adequate recompense for both owners and managers.

#### THE HOTEL MODELS

Three hotel models were selected for analysis based on existing and projected results for typical hotels in countries where the Bank has, or conceivably could have tourism projects. These countries include, amongst others, Mexico, Morocco, Tunisia, Turkey and Yugoslavia. The hotels are (1) a high annual occupancy, high investment cost hotel (Type I); (2) a low occupancy, low investment cost seasonal vacation village (Type III); and (3) a medium occupancy, medium investment year-round hotel (Type II ). The models are summarized in Table 1 , and an explanation of the assumptions is given below.

#### Investment Costs

The following investment costs per room have been assumed:

Type I	\$30,000
Type II	\$20,000
Type III	\$10,000

Necessarily, these are somewhat arbitrary but they do represent a range of current investment costs experienced in various countries. It is difficult to relate occupancy and particularly room rate to investment since they are set in the market place independent of investment costs.

However, it is clear that the higher the investment cost, the higher must be occupancy and tariffs if the hotel is to be operated profitably - this assumption is used in the present analysis.

#### Occupancy

In general, the seasonality of demand is reflected in the average annual occupancy rates for various types of hotel. For example, hotels located in large metropolitan areas catering primarily to business travel, enjoy a fairly even flow of guests and thus relatively high average annual occupancy rates. Conversely, holiday villages located in non-urban resort areas, catering to the highly seasonal demand of vacation travellers normally face rather low average annual occupancy rates. The occupancy rates used here are on an annual per room basis. The occupancy curves used in the models are:

<u>YEAR</u>	<u>1</u>	<u>2</u>	<u>3-25</u>
Type I	55%	65%	75%
Type II	50%	55%	60%
Type III	30%	35%	40%

#### Average room rates

The average room rate was set at \$1 per \$1,000 of investment.

#### Operating Expenses

These were developed using experience ratios from hotels in Bank member countries. Operating expenses include cost of raw materials (food, beverage, supplies), payroll, direct departmental expenses (supplies), undistributed expenses (administrative, advertising, heat, light and power, repairs and maintenance and local taxes and insurance). Ratios for a typical

year of operation in the various types of hotel are:

	Expense Category			
	<u>Cost of Goods Sold</u>	<u>Payroll</u>	<u>Other direct</u>	<u>Undistributed</u>
Type I	12%	29%	11%	21%
Type II	16%	25%	13%	20%
Type III	25%	25%	8%	15%

Variations in the models

Projections using the above investment costs, occupancy, room rate and operating expense structure were made. These projected results have been designated as Models Ib, IIB and IIB. In order to test the results of our analysis against alternative operating results for each type of hotel, we have made two additional projections of operating results for each hotel type. In each case, the alternative models assume that all other variables remain unchanged except room rates (and total sales). Obviously, if tariffs change, other variables (e.g. occupancy, operating costs ) would also be expected to change. As a simplification, it has been assumed that these changes are subsumed in the effects of the changes in tariffs. The changes in tariffs are indicated below on a per \$1000 of investment basis.

<u>Hotel Type</u>	<u>Model</u>	<u>Tariff (U.S.\$)</u>
I	a	1.15
	b	1.00
	c	0.85
II	a	1.20
	b	1.00
	c	0.80
III	a	1.25
	b	1.00
	c	0.75

On the basis of the alternative tariffs, the gross operating profit stream of each model was projected, as shown in Table 1.

The models do not exhaust the different types of hotel possible, nor are they intended to define the type of hotel in which the Bank Group should be interested. On the contrary, each specific hotel project will have its own characteristics and each project has to be evaluated individually. For example, the Type I hotel is a high investment, high occupancy high room rate hotel. This type of project certainly exists particularly in capital city locations. However, occupancy of 75% over a 25 year life and room rates of \$1.15, \$1.00 and \$0.85 per \$1,000 of investment would be quite high for an actual project and compelling evidence would have to be forthcoming to justify such assumptions. At the other extreme, the vacation village is typical of the kind of operation often seen in the Mediterranean - highly seasonal, low room rates, working at capacity for about six months a year, with guests coming through the agency of tour operators and wholesalers. At the same time, there are year-round vacation villages which in fact charge high tariffs and can achieve impressive annual occupancies. In summary, the models used in the study are representative of hotels found in the real world, but at the same time they do not exhaust the range of possibilities in the real world.

In order to gain an initial insight into the project returns for the various hotel models, a DCF rate of return on invested capital has been calculated, excluding income taxes, for each model with the following results: <sup>1/</sup>

---

<sup>1/</sup> This project DCF rate of return is equivalent to a first step, unadjusted economic rate of return unadjusted for differences between market prices and true economic values.

<u>Model</u>	<u>DCF Rate of Return</u>
I a	16.6%
b	14.6%
c	12.4%
II a	12.8%
b	10.5%
c	8.0%
III a	8.8%
b	6.6%
c	3.9%

Additional assumptions

- (a) All projections in the study are based on amounts per \$1,000 of investment. This is a simplification made for computational purposes only. By dealing in \$1000 units the effect of size on hotel operations is avoided. However, size (number of rooms) will be an important aspect in individual projects and will affect the services to be offered and so the total (relative) investment cost, the operating characteristics, and the financial planning for the project.
- (b) It has been assumed that the hotels are owned and operated by the same entity. Thus, there are no management fees, or rent included in the operating projections. In many cases, in fact, a management agreement or lease might be in operation. The effect of such an agreement would be to introduce an additional fixed expense.

- (c) The economic life of each of the nine models is assumed to be 25 years.
- (d) Replacements, to maintain the operating efficiency of the hotels, have been set at \$8 per \$1,000 of investment cost.
- (e) Depreciation has been set at \$40 per \$1,000 of investment cost.
- (f) Income taxes were calculated as 25% of taxable income. A five-year loss carry forward was held in the calculation.
- (g) Inflation and capital gains have not been included in the analysis.





## TERMS OF LENDING

### Mortgage lending

A mortgage loan is a loan usually long term secured by the value of a property plus a margin of safety so that in the case of default the value of the property will exceed the loan outstanding. To ensure a safe loan, the amount of the loan must be conservative in relation to the value of the project throughout its economic life. The danger with a mortgage loan is that the rate of depreciation and obsolescence of the facility will exceed the rate of loan amortization. In addition, the flow of operating earnings must be sufficient to allow a margin of safety over debt service requirements, since:

- (a) the hotel may not reach operating projections;
- (b) earnings may decline as the property ages; and
- (c) there are continuing needs for replacements especially in the middle and late years of project life.

The combination of a conservative loan to value ratio and a margin of safety in operating earnings are the main controls which a mortgage lender has. If these conditions do not exist then a mortgage becomes a combination of venture risk and debt. The most usual circumstances in which there is departure from these norms are when:

- (a) cost is not used as the basis for value in the loan to value ratio and
- (b) projections of earnings are faulty.

The security of a loan is affected if there is inadequate capital replacement, if there are no returns to the equity participants or if there are

any defaults in junior financing commitments.

Lenders look for sufficient security and margins of safety for their loans, but over and above this, mortgage lenders also rely on the integrity and creditworthiness of loan applicants as important elements in the evaluation of projects. There is thus a large element of personal contact in loan evaluation and, in fact, there may be considerable latitude in the terms of lending granted to different borrowers. These terms are negotiable and taken as a whole are considered very important ingredients of a good financial package. It is often thought that the interest rate is the most important criterion whereas it may be of relatively minor importance in relation to other conditions and terms as applied to individual projects. In short, terms of lending are variable, negotiable and important for their overall probable impact on a project.

#### Terms of lending

Items which can appropriately be considered as terms of lending are:

- (a) Stopgap versus permanent financing
- (b) Ratio of loan to value of project
- (c) Method of payment
- (d) Grace period
- (e) Interest rate
- (f) Length of loan

In some situations, it is impossible to secure permanent financing during construction and during the first few years of operation and stopgap financing becomes necessary. It is sometimes possible to arrange a construction loan eventually to be converted into a mortgage at the same institution. More often than not, however, a

developer will have to use separate sources of financing. This introduces another element of uncertainty into a project and involves considerable additional expense and time arranging financing. World Bank loans are permanent and cover construction, pre-opening and operating phases. This in itself is an item of considerable value to prospective borrowers.

The ratio of loan to value is an area which is open to interpretation. What is "value"? Most conservatively, it can be estimated as construction cost of fixed assets; or total project cost; or it can be based on some concept of "fair market value". Where "credit expansion" has been a goal, changing the definition of "value" has been a device for allowing increased proportions of projects to be financed by debt. The ratio of loan to value is directly related to debt/equity ratios which are important key measurement criteria in hotel projects. Whereas a large number of debt/equity ratios could apply, and perhaps there might even be an optimal debt/equity ratio for an individual project, in this study a fixed debt/equity ratio will be arbitrarily selected for testing.

The method of payment as mentioned above can be handled in a variety of ways which have considerable impact on hotel financing. Since, however, Bank loans are repaid in equal installments of principal and interest, the annuity method will be used in this study. This again is an attractive feature for borrowers as interest under other methods of debt service can be much higher.

The grace period is an important concession for a hotel project. Since during the construction period there is no revenue and possibly little in the initial years of operation, grace periods are often made in hotel loans and usually only refer to principal amortization. Interest during

construction can be capitalized, to be amortized over several years but it is also conceivable to defer interest after the hotel opens so that, in effect, there is a grace period on principal and interest. In this study, we will select a grace period on principal of three years covering an assumed two years construction period and the first year of operations.

As the method of payment is the annuity method, the method of interest calculation is defined.

The length of the loan influences the debt burden; and the method of payment, the interest rate and the length of the loan are all related to timing which is a vital element over a project's economic life. The length of loan or amortization of principal will be a variable in this study.

In summary, the following terms of lending are given or fixed:

- (a) Permanent financing (i.e. no stopgap necessary)
- (b) The annuity method of payment
- (c) Ratio of loan to value (debt/equity)
- (d) Grace period

The remaining two are variable:

- (e) Interest rate
- (f) Length of loan

The terms of lending study will test selected combinations of the variable terms of lending under operating assumptions for different types of hotel.

#### MEASUREMENT CRITERIA

Measurement criteria, as defined here, include the methods by which investors and lenders evaluate hotel projects. It is assumed that the evaluation is a financial evaluation, that is, that a project can be determined to be feasible or not, on the basis of financial criteria.

This is clearly a limiting assumption for there are many non-financial factors involved in hotel investment decisions, particularly in development projects the Bank Group might investigate. The most obvious of these is the economic rate of return on a project. However, in the present study the measurement criteria are financial and if certain projects fail to meet these criteria the options are: (1) to relax the terms of lending if possible; (2) to introduce incentives; or (3) to reject the project.

Two ratios commonly employed by lenders in evaluating projects are: (1) the number of times interest is earned<sup>1/</sup>; and (2) the debt service coverage ratio<sup>2/</sup>. These measure the ability of a project's forecast operating results to meet interest payments out of earnings and to repay principal out of cash generation. For hotels, accepted values for these ratios are 2.0-2.5 and 1.2-1.5 respectively in a typical year. The lower limits of 2.0 and 1.2 are used in this study.

Of the criteria commonly employed by investors related to returns on their investment, we have selected the payback period<sup>3/</sup> and the ratios of net income<sup>4/</sup> and net cash flow to equity<sup>5/</sup>. An upper limit of 15 years

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1/ Number of times interest earned  
 = 
$$\frac{\text{Earnings before interest and tax}}{\text{Interest}}$$

2/ Debt service coverage  
 = 
$$\frac{\text{Net profit} + \text{depreciation} + \text{interest} (1-\text{tax rate})}{\text{Principal} + \text{interest} (1-\text{tax rate})}$$

3/ Payback period: number of years required for cash generation to equal original investment

4/ Net income/initial equity

5/ 
$$\frac{\text{Net income} + \text{depreciation} - \text{replacements} - \text{principal}}{\text{initial equity}}$$

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payback (although this could eliminate many potential investors) and ratios of 8% (net income/equity) and 10% (net cash flow/equity) by a typical year of operation have been selected as limits in this study.

For commercial projects, analysis of ratios for a "typical year" could be between the third and fifth years of operation. In this study, since projects are development projects, the fifth year of operation has been used.

Criteria taking into account the time value of money have also been used. Use of such methods is only found in the more sophisticated companies in the hotel industry and it is more difficult to establish minimum acceptable industry standards. The project DCF <sup>1/</sup> or the first approximation economic return has been calculated, as discussed in paragraph, - to rank each of the nine models. In addition, the DCF relating equity to net cash flow <sup>2/</sup> has been calculated for each of the nine models under various terms of lending assumptions. A minimum acceptable equity rate of return was set at 5%.

#### PROJECTION OF CASH FLOW STATEMENTS

Cash flow statements were prepared based on the investment costs, income projections and financial constraints. The configuration of three basic models, each with three variations in gross operating profit and eight terms of lending assumptions, results in 72 cash flow projections. In fact, certain ones (27 year loans in Types I, II) were not calculated, and additional softer terms were applied to Types II and III.

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- 1/ Internal rate of return based on investment cost streams and gross operating profit as benefits
- 2/ Net cash flow defined as net profit + depreciation - loan amortization - replacements

Conceivably, if economic lives in excess of 25 years could be established, loans in excess of 25 years would render projects acceptable.

From an investors point of view under cases 1-8, only project Type III a cases 1 and 2 are acceptable as they stand - that is at 7 1/4% with 23 or 27 year loans. Under the payback criterion, projects are almost uniformly rejected. The equity DCF for Type IIIa projects reaches acceptable levels over the 25 years economic life, but they fail to meet debt service requirements in the early years of operation, and therefore must be excluded. Again, under cases 9 and 10 with softer loans, projects Type IIIa and b become acceptable.

The implication for terms of lending of Type III projects is that for loans up to 25 years at interest rates of 7 1/4% and 9% only projects where the room rate exceeds \$1 per \$1000 of investment are acceptable. By reducing the interest rate to 4% or lower, hotels with room rates at least equal to \$1 per \$1000 of investment become feasible.

#### CONCLUSIONS AND RECOMMENDATIONS

In general, the study shows that good hotel projects can support current terms of lending. Type I projects can be managed successfully at the hardest terms tested, that is, 13 year loans with 3 year grace periods on principal repayments at interest rates of 9%. As occupancy drops down to the 60% level, as in Type II projects, good revenue generating projects can also handle hard terms. However, weaker Type II projects need softer terms - longer repayment schedules and lower interest rates - in order to make them acceptable. The study also shows that selected projects with low occupancies and weak earning power can be feasible under very soft terms as seen in Type IIIa cases 9 and 10.

The weaker projects as noted can be rendered feasible by softening the terms of lending, at least, to the extent of satisfying the immediate debt service requirements of lending agencies. However, these projects, at best,

are marginal for the private sector. The individual investor or corporation, faced with capital rationing will rank projects by some acceptable (to him) measurement criterion and eliminate those less appealing projects. If the criterion is current income or quick recovery of capital, Type III projects will not find investors. However, it is necessary to recognize that an investor's objective may not be current income, in which case, the Type III projects may still be attractive. Other objectives could be land speculation, increased market penetration, a support role for a primary business (e.g. on hotel to lodge an airline's passengers), or a variety of non-economic goals including patriotism or monument building. But even if a minimum current income criterion must exist to attract suitable investors, incentives can be introduced which might render potential earnings of Type III projects attractive to investors. Analysis of incentives is beyond the scope of this paper but intuitively, it would appear that fiscal incentives would radically improve returns to equity in the Type III model. Then it becomes a question of economic rates of return. It is for this reason that first approximation economic rates of return for the projects were calculated and included in this study - all but one of the models has such a rate of return of at least 9%.

The study explored the effects of changes in interest rates and in the length of loans, while holding other terms of lending, and indeed other financial and operating parameters, constant. Amongst others, the following parameters were held constant: -

Model Assumptions

Size of hotel and specific service configuration

GOP ratio to sales



Investment cost

Economic life

No lease or management contract

Financial Assumptions

Debt/equity ratio

Grace period

Replacements

Depreciation

It is recommended that consideration be given to continue the terms of lending research in order that a range of more general conclusions be reached by relaxing some of the constant assumptions listed above and by performing sensitivity analysis on selected criteria. For this, it would be necessary to resort to a computer model. The computer model necessary for this could be a cash flow model with sub-routines for calculating loan amortization schedules. It would also have to be able to calculate sensitivity analysis readily so that the effects of holding constant or changing parameters could be analyzed. This partial model in fact could be a useful input for a more general hotel model.

TERMS OF LENDING  
Selected Institutions Terms  
NB Information Tentative and Subject to Change

<u>Country</u>	<u>Institution</u>	<u>Length of Loan</u>	<u>Interest Rate</u>	<u>Security</u>	<u>Comments</u>	<u>Information Dated</u>
Australia	Australian Mutual Providence Society	10-20 yrs.	7.75-8%	Mortgage		1971
Belgium	Credit communal	20-30	Fixed at market every 6 months	Pledge by community	Community interest projects only	1971
Belgium	Societe Nationale de Credit a L'industrie	10-15	7%	Mortgage, chattel mortgage		1968
Finland	Tourist Development Fund	8-15	7.5-8%	Mortgage		1971
France	Caisse des Depots et Consignations	20	5.25%	Pledge by community	Community interest projects only	1971
France	Caisse centrale de credit hotelier	Up to 30	3.5-6%	Mortgage	New buildings 60% of cost; rest 50% of cost	
Greece	Greek Bank for Industrial Development	18-24	2.5-8%	Mortgage	80% of cost in developing areas; 55% in rest	1973
Italy	Cassa per il Mezzogiorno	10-20	N/A	Mortgage	Granted through authorized banks	1973
Japan	Japan Development Bank	10-15	8.2%	Mortgage or personal surety		1971
Korea	Government	5	12%	Mortgage		1973
Morocco	Credit Immobilier et Hotelier	Up to 20	8.75%	Mortgage	60% of investment cost	1973

TERMS OF LENDING  
Selected Institutions Terms  
NB Information Tentative and Subject to Change

<u>Country</u>	<u>Institution</u>	<u>Length of Loan</u>	<u>Interest Rate</u>	<u>Security</u>	<u>Comments</u>	<u>Information Dated</u>
Mexico	Banco Nacional de Mexico	10-15	11-13%	Mortgage	50% of fixed assets	1973
Spain	Banco Hipotecario de Espana	15	5.25%	Mortgage	50% of costs (60% for holiday villages)	1971
Switzerland	Societe de Credit Hotelier	15	3.88%	Mortgage		1968
Tunisia	Societe Nationale d'Investissement	15	9%	Mortgage, pledge	Also takes equity	1973
Tunisia	COFITOUR	15	9%	Mortgage	Up to 50% of debt	1973
Yugoslavia	Yugoslav Investment Bank	5-25	6-7%	N/A		1971
United States of America	Ex-Im Bank	N/A	5%		"tied" credit	1971
U.S.A.	Insurance Company	Up to 30	7-9%	Mortgage		1973
International	Inter-American Development Bank	10-25	4-8%	Mortgage	2-5 year grace	1971
"	Danish Government	Up to 25	0	N/A	40-50% of project cost up to 7 years grace	

TERMS OF LENDING  
Selected Institutions Terms  
NR Information Tentative and Subject to Change

<u>Country</u>	<u>Institution</u>	<u>Length of Loan</u>	<u>Interest Rate</u>	<u>Security</u>	<u>Comments</u>	<u>Information Dated</u>
International	German Development Company	15	3.5 - 6.5%		Also takes equity	1973
"	Commonwealth Dev. Corp. (U.K.)	10-15	9%	Mortgage, bank guarantee		1971
"	Caisse centrale de Cooperation Economique (France)	20	3.5-6%	Mortgage	Up to 60% of project cost	1971

HOTELS AS A SERVICE INDUSTRY

1. Hotels provide services, just as many other trades, banks, school systems and other real estate businesses do. Hotel services are largely intangible, and are consumed at the same time as they are provided. A client must go to a hotel to enjoy its services whereas most products and services are distributed to customers. Hotel services involve much personal contact between client and guest and are arranged for at specific times. These factors all combine to create a business whose characteristics have led to financing and management peculiar to the industry.

2. Exhibit A summarizes results for a 500-room hotel. The results shown are for the second year of operations and show very high occupancies and room rates. Whereas the hotel is not typical, it does have some attributes which are typical of many hotel operations as explained in the following paragraphs.

3. Fixed assets account for the major portion of assets in a hotel (86% in the sample in Exhibit A) and consequently fixed charges to service the project are also high. The ratio of net book value of fixed assets to sales (134% in Exhibit A) usually is 100-150% in a hotel which compares with 50-75% for many manufacturing industries. The supply of rooms in a hotel is constant (fixed) in the short run, although adjustable upward in the long run, and the initial decision on capital investment is thus relatively more important for a hotel than for many other industries. In addition, a hotel is "purpose built" and has little alternative, if any, other use without considerable further capital investment. Therefore, a hotel must be self-liquidating and the investment in it be recovered over its economic life.

4. Fixed assets have to be replaced, some several times, over the life of the project simply to maintain the operating efficiency and to preserve the projected earnings capacity of the hotel. This is because, in addition to physical depreciation, hotels are subject to obsolescence caused, for example, by customers' changing tastes. These replacements are not capital improvements in the strict sense of the word, but replacements whose purpose is to maintain (rather than improve) the earning power of the hotel. Depreciation and obsolescence allowances have to be sufficient not only to give a realistic assessment of profit but also sufficient to provide adequately for necessary replacements.

5. A current ratio of one to one (1.3:1 in Exhibit A) is considered adequate for a hotel. Combined accounts receivable and inventories are usually less than current liabilities meaning that the 1:1 current ratio, rather than 2:1 and upwards for many other industries, is considered adequate. Net working capital is minor but the cash cycle is short, from three to four weeks. Because of the minor importance of net working capital, credit is difficult to obtain for an individual hotel - its fixed assets are already pledged against the long-term mortgage debt, there is no security in accounts receivable since the services have been consumed and there is little collateral in working capital to merit further extension of bank credit. A hotel is thus restricted to the flow of operating income and to trade credit for working funds and in periods of slack sales the current position can deteriorate quickly.

6. Current assets in a hotel are a small portion of total assets because a hotel's "merchandise", mainly its rooms for rent,<sup>1/</sup> is not held in inventory, a current item, but in fixed assets. As a result, a hotel

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<sup>1/</sup> Food, beverages and supplies are of course held in inventory but they are relatively minor and with the exception of the few establishments blessed with an Escoffier, the production process is insignificant.

is largely denied the flexibility of planning its production according to changes in forecasts of business as a manufacturing concern would through control of its raw materials, goods in process and finished goods inventories. A hotel's supply of rooms is fixed whether the rooms are rented or not - and, an empty room overnight is a sale lost forever.

Operating characteristics and measurement criteria

7. Hotels exist in a climate of uncertainty:

- (a) They offer personal services and products consumed as part of the service. These services are close to the basic needs of individuals and are subject to his emotions - in addition, because a person sleeps and eats as a matter of necessity, when away from home he considers himself an expert or authority qualified to render opinions on hotel operations. Hotels are thus subject to a great degree to the whims and tastes of their clientele.
- (b) A hotel expenditure is largely discretionary. In periods of economic slowdown an individual or company tightens up on discretionary expenditure first and so the hotel industry can be quite sensitive to economic fluctuations.
- (c) Many hotels have marked seasonal differences in levels of business which often necessitates turning away business in high seasons and operating with practically

no business in low seasons. The "off season" is one of the most difficult problems a hotel may face.

- (d) A hotel service has high substitutability. On the one hand, technological advances in transportation have made many more areas accessible to larger groups of people with the result that hotels in one region in effect compete with hotels in other regions for the same patronage. On the other hand, in the case of tourist use of hotels at least, hotels must compete with other forms of accommodation (e.g. campers) and indeed with other discretionary expenditures for recreation and leisure (e.g. color television and recreational boats).

8. A hotel typically provides a variety of services including overnight accommodation, food and beverage service, meeting facilities and planning, and entertainment. The combination of these services varies in each hotel but the following general observations can be made. The principal business of a hotel is providing overnight accommodation and in most hotels (with exceptions in Scandinavia and Australia, for example) rooms provide the greatest proportion of sales (56% in Exhibit A). Food and beverage together often can be as important as room sales (41% in Exhibit A). The balance is composed of less important sales supporting the main business except in cases where the hotel operates a casino, recreational facility or other service generating significant revenue.

9. Expenses vary widely between departments but after deduction of direct departmental expenses, the rooms department typically makes a much higher contribution to profit than the food and beverage department. This



has given rise to many operators questioning the wisdom of providing food service but in tourist and convention hotels the question does not arise since accommodation and food service are joint services which are not readily separable from a marketing point of view.

10. Payroll and raw materials (food and beverages) are the most expensive operating expenses a hotel faces. These and other expenses which can be easily attributed to a department are allocated on a departmental basis; all other operating costs are not allocated because of the difficulty in finding a suitable basis for allocation. A high proportion of operating expenses in a hotel are fixed and there is little opportunity to adjust them to changing levels of business.

11. Because a high proportion of operating expenses are fixed, in the short run it makes sense to generate as much revenue as possible from all sources. In the long run, of course, a hotel should concentrate on the elements of its revenue which contribute most to profit.

12. Gross operating profit (a low 18% in Exhibit A), the residual of sales minus operating expenses, is important, since this is the amount out of which all fixed and financial expenses must be met - including rent (see para 15), insurance and local taxes, interest, depreciation, income taxes and profit. In new projects, a hotel is only feasible to the extent that its projected long-term operating profit will support the financial structure proposed, provide a reasonable return to all parties in relation to their goals and risk exposure and permit the retirement of loans without jeopardising the capital replacement required to assure a continuing flow of operating profit as forecast over the project's economic life.

13. Net profit after deduction of operating expenses and fixed charges is often very low (3% of total sales, 5.5% to equity in Exhibit A) in hotels. Group net profit for Hilton Hotels in the United States was 4% of sales in 1971 and 4.6% of sales in 1972. In one study<sup>1/</sup>, consultants found that

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<sup>1/</sup> Investment in Hotels and Catering, National Economic Development Office, London, 1968

availability of capital for hotel projects was limited, amongst other things, because "the hotel industry is so market sensitive that profitability in both the long and short term is suspect". Further, the same report states that "the margin between the rate of return earned and the market rate of borrowing is generally so small that there is little incentive to invest".

14. Cash generated by a hotel like other real estate ventures is typically considerable principally because of depreciation and amortization allowances which although a cost of doing business are a non-cash item. Depreciation and amortization is typically a much greater portion of cash generated in a hotel than net profit. (In Exhibit A, depreciation represents 35% of GOP, net income 18% <sup>1/</sup>). The cash flow after servicing long-term debt can be used for a variety of corporate activities including expansion in the same field or in different directions, debt reduction, servicing subordinate debt or even partially liquidating the enterprise. This is considered one of the attractions of the hotel industry, but there are several caveats:

- (a) A project's cash flow is only as realistic as the projected earnings and a hotel faces:
  - (i) a long construction period where no earnings occur;
  - (ii) a period of 1-5 years where earnings usually build up slowly; and
  - (iii) possible erosion of earnings in the later years of a project's economic life.

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<sup>1/</sup> This hotel reported no income tax liability. On the assumption of a 50% tax bracket, depreciation would be four times greater than net income as a "source" of cash.

(b) Expansion should not be at the expense of proper maintenance of the earning power of the hotel. Sufficient cash has to be invested in replacements to retain the hotel's earning power.

(c) Whereas cash flows, particularly in the early years when requirements for replacements are modest, can be used to service subordinate debt, this device has more often than not turned out to be a trap for the unwary rather than sound financing.

15. The above discussion ignores the issue of who owns and who manages a hotel. In practice, ownership and management of hotels are often in different hands. Owners often consider their hotel investments as real estate - and beyond generation of adequate earnings they have no interest in the building as a hotel. Consequently, they lease the building to operators who are competent hotel managers or retain managers for a fee. It is beyond the scope of this paper to treat the arrangements between the parties involved<sup>1/</sup> but the introduction of an additional party requires that the hotel generate earnings which will satisfy the minimum requirements of investors and operators party to the agreement if the project is to be successful.

16. The minimum requirements of investors and operators are conditioned by the risks and rewards involved in a project and by their several objectives and policies. As pointed out above, net profits can be very low - particularly

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<sup>1/</sup> For a discussion of leases and management contracts, see the document "Hotel Financing and Management", IFC/SecM70-13 dated July 22, 1970

if there is an intermediary operator or lessee - but cash flow can be attractive. Beyond this, both operating leverage and financial leverage are possible in hotel operations.

17. Operating leverage arises because of the structure of low variable and high fixed expenses. If a hotel is operating at a level where profits are only adequate any increase in operating revenue (through increased revenue or improved occupancy, for example) or any decrease in managed (fixed) expenses will carry through substantially to net profit and magnify results. But the contrary is also true - a hotel is so sensitive to changes in occupancy and room rates that the downside risk is substantial if the hotel fails to attain projected occupancy or room rates. However, operating leverage is considered an incentive - especially to the groups and chains which rely on marketing networks to generate business between the units of the group.

18. Similarly, because of the high proportion of debt with its relatively fixed servicing requirements in the financial structure of a hotel, the opportunity for trading on the equity, of using borrowed funds when their use results in a higher return than the cost of capital, results in improved earnings accruing to equity holders. Again, the downside risks are great if the hotel fails to perform as expected especially if it was financed with thin equity and several layers of senior and junior debt. But the possible gains in earnings through the use of leverage remains an objective and policy of many hotel investors.

#### Hotel Financing

19. Hotels in many respects are financed according to norms used in the real estate business. Real estate projects usually have slow capital turnover, involve large investments and small annual returns. Lenders

make loans available because real estate is considered a stable investment with considerable long term growth potential, and possible appreciation in land value. Investors, on the other hand, often are interested in the cash flow or tax sheltered earnings possible because of accelerated depreciation allowances. To this extent, hotels are like any other real estate improvements. However, hotels differ from other real estate projects because of the need for considerable replacements over the hotel's economic life and market uncertainty, since, except in very exceptional circumstances, the occupancy rate cannot be determined before the hotel is built or open as it can in the case of, for example, an office building through lease commitments. In addition to uncertainty in the market, asset lives and residual values are very difficult to estimate for hotels.

20. Hotel financing is limited only by the resources and imagination of the investors. Some devices commonly in use are explained below:

- (a) Ground lease - In some instances, often where it is impossible to buy the land, ground leases are employed. One advantage of a ground lease is that it reduces the capital required but it is advantageous to the hotelier only if the rental is cheaper than the cost of capital. Usually, a ground lease is subordinated to the 1st mortgage.
- (b) Stopgap financing - Before it is open (and in some countries during the initial years of operation) a hotel is often not considered as security enough for a mortgage loan and "stopgap" or "bridging" finance is necessary for the construction period and until a permanent mortgage can be arranged. A construction loan can be arranged it is paid off when the first

mortgage is obtained. Other types of stopgap financing are "standby mortgages" which are usually for two to five years and are not amortized, and bank overdrafts which are often used for smaller hotels.

- (c) 1st mortgage - This is the most usual method of financing a hotel and is discussed in more detail in para. \_\_\_\_.
- A mortgage loan is secured by a pledge on the fixed assets of the hotel and can be middle to long term. A first mortgage is usually senior to all other loan obligations in a project. These loans can be structured to be fully amortized, partially amortized or simply term mortgages with no amortization. The most common type used in hotels is the fully amortized loan with payment either on the annuity basis or declining balance. It is worth noting that mortgages are typically long term and hence illiquid. Lending institutions may in fact not be willing to lend on extended terms in some countries, especially if there is no secondary market where mortgages can be sold.
- (d) 2nd (Junior) mortgage - Because of possible high cash flow in the early years of operation (through accelerated depreciation and few requirements for replacements) junior mortgages are sometimes employed. They are subordinate to 1st mortgages on their claim on assets and are high cost and often have large discounts on face value. They are most often used in purchases of hotels with 1st mortgage liens where the seller is willing to take a 2nd mortgage in lieu of cash. In new projects, junior mortgages should be resorted to with great restraint and only in the few cases where they can be adequately serviced from the project's earnings.

- (e) Debentures - A hotel pledges most of its assets to obtain its mortgage financing and therefore has little further security for loans. In addition, it has only minor working capital - which is the usual security for a debenture. Therefore, for financing an individual hotel, there is little security for the debenture holder and in many ways a debenture holder resembles a preference shareholder although the debenture remains a loan. Where investors are prepared to accept bonds, the debenture is often used in hotel financing particularly in combination with an equity participation. In addition, in some countries, mortgage debentures, or bonds backed by mortgages are sometimes used.
- (f) Supplier credits - Furniture, fixtures and equipment is often financed through installment purchases with credit extended by the seller or through a medium term bank loan. Supplier credits are often used where mortgage loans cannot be applied to equipment or where they are restrictions on the ratio of a mortgage loan to the value of the project.
- (g) Leasing - Although heating ventilation and air conditioning can be considered part of real estate for mortgaging, it and other equipment (especially television sets, but also furniture) can be leased. This can be expensive since the lessor must recover the cost of the equipment plus his overhead but lease payments are tax deductible (although this advantage is largely offset by the

accelerated depreciation now often allowed) and the uncertainty of the asset's depreciable life is largely removed when the term of the lease is known.

- (h) Sale and leaseback - In a sale and leaseback situation, a developer builds a hotel and sells the land and building (or land only) to a lender and then leases it back. The major advantage of the method is that equity is reduced since the mechanism provides a larger percentage of project cost than can often be obtained using normal mortgage sources. It is, however, a high cost method of financing.
- (i) Other sources - There are other sources and types of financing including condominiums, joint ventures, syndicates and investment trusts but these are of lesser importance, particularly in projects where the Bank might be involved.
- (j) Equity - Equity can be obtained from domestic and international sources, public, private and quasi-public. The aims and goals of each different type will vary greatly. IFC, for example, like many equity investors may be interested in current income as dividends to enable them to sell their investments after a reasonably short time. Other equity investors may be interested in long term capital gains; others may be interested in cash flow; others in sheltered income. The point is that although this paper will focus on terms of lending, both equity investors and



lenders will have objectives which, although they may appear contradictory, must be satisfied if the project is to remain sound. Terms of lending should therefore be designed to ensure a solid investment backed by the value of the improvements but at the same time acceptable and compatible with equity investors' objectives and the earning power of the project.

21. The discussion above implicitly assumes that financing of individual hotels is being discussed. However, the criteria are substantially modified for hotel chains and for hotels which will be affiliated with groups. Hotel chains, for example, have access to capital markets, can issue stock or debentures, can sometimes guarantee loans or provide additional security through its other holdings if one hotel's assets are not considered sufficient collateral for a loan. In addition, chains often are considered as "additional security" when financing is being sought - this can be misleading, however. Financing is based on projected earnings - only to the extent that the chain can support or augment operating earnings can it be considered "additional security".

22. Although all the types of financing mentioned may be encountered in Bank projects, the analysis of terms of lending will be approached on the assumption that a hotel will be entirely financed by equity and by one long term loan secured by a mortgage. These are simplifying assumptions which preserve the essential nature of hotel projects.

BALANCE SHEET

<u>Assets</u>	<u>\$</u>	<u>%</u>	<u>Liabilities</u>	<u>\$</u>	<u>%</u>
Current	1.6	11	Current	1.2	8
Fixed (net)	12.5	86	Long-term debt	7.9	55
Other	.4	3	Stockholders equity	5.4	37
	—	—	Total liabilities and share- holders equity	14.5	100
Total assets	14.5	100			

INCOME STATEMENTS

	<u>\$</u>	<u>%</u>	<u>%</u>
Sales			
Rooms	5.2	56	
Food	2.9	31	
Beverage	.9	10	
Other	.3	3	
Total sales	<u>9.3</u>	<u>100</u>	
Total departmental and undistributed expenses	7.6	82	
Gross operating profit	<u>1.7</u>	<u>18</u>	100
Local tax and insurance	.1	1	6
Interest	.7	8	41
Depreciation and amortization	.6	6	35
Net income <sup>1/</sup>	<u>.3</u>	<u>3</u>	<u>18</u>

<sup>1/</sup> No income tax because of loss carry forward

STATISTICS

Age of hotel	2 years
No. of rooms	500
Percentage of occupancy	82%
Double occupancy	1.9
Average daily room rate	\$35.00

TERMS OF LENDING  
Earnings before Interest and Taxes to Interest Ratio

CASE	TYPE I				TYPE II				TYPE III			
	Y E A R				Y E A R				Y E A R			
	1	3	5	10	1	3	5	10	1	3	5	10
a 1		NOT	TESTED		1.2	2.4	2.4	2.9	0.8	1.8	1.8	1.7
2	1.1	3.5	3.7	4.7	1.2	2.4	2.5	3.1	0.1	1.6	1.7	2.0
3	1.1	3.7	4.1	6.0	1.2	2.5	2.7	4.0	0.1	1.6	1.8	2.6
4	1.1	3.8	4.7	14.0	1.2	2.5	3.1	9.3	0.1	1.7	2.0	6.1
5		NOT	TESTED		0.9	1.9	2.0	2.2	0.1	1.3	1.3	1.5
6	0.9	2.9	3.1	3.7	0.9	2.0	2.0	2.4	0.1	1.3	1.3	1.6
7	0.9	2.9	3.2	4.5	0.9	2.0	2.2	3.0	0.1	1.3	1.4	2.2
8	0.9	3.1	3.7	10.5	0.9	2.0	2.4	7.0	0.1	1.3	1.6	4.6
9									0.3	5.6	6.1	8.1
10									0.2	2.9	3.0	3.7
b 1		NOT	TESTED		0.9	1.9	1.9	2.2	(0.1)	1.1	1.1	1.3
2	0.9	3.1	3.2	3.9	0.9	1.9	2.0	2.4	(0.1)	1.1	1.2	1.4
3	0.9	3.1	3.4	5.0	0.9	1.9	2.1	3.1	(0.1)	1.1	1.2	1.8
4	0.9	3.2	3.9	11.8	0.9	2.0	2.4	7.3	(0.1)	1.2	1.3	4.3
5		NOT	TESTED		0.7	1.5	1.6	1.7	(0.1)	0.9	0.9	1.0
6	0.7	2.5	2.6	3.1	0.7	1.5	1.6	1.9	(0.1)	0.9	0.9	1.1
7	0.7	2.5	2.7	3.8	0.7	1.1	1.7	2.4	(0.1)	0.9	1.0	1.4
8	0.7	2.6	3.1	8.8	0.7	1.6	1.9	5.4	(0.1)	0.9	1.1	3.2
9									(0.3)	3.9	4.3	5.7
10									(0.2)	2.0	2.1	2.6
c 1		NOT	TESTED		0.5	1.3	1.4	1.6	(0.2)	0.6	0.6	0.7
2	0.6	2.4	2.6	3.2	0.5	1.3	1.4	1.7	(0.2)	0.6	0.6	0.8
3	0.6	2.5	2.8	4.1	0.5	1.4	1.5	2.2	(0.2)	0.6	0.7	1.0
4	0.6	2.6	3.2	9.5	0.5	1.4	1.7	5.2	(0.2)	0.6	0.8	2.3
5		NOT	TESTED		0.4	1.1	1.1	1.2	(0.2)	0.5	0.5	0.6
6	0.5	2.0	2.1	2.5	0.4	1.1	1.1	1.3	(0.2)	0.5	0.5	0.6
7	0.5	2.0	2.2	3.1	0.4	1.1	1.2	1.7	(0.2)	0.5	0.5	0.8
8	0.5	2.1	2.5	7.1	0.4	1.1	1.3	3.9	(0.2)	0.5	0.6	1.8
9					1.8	4.8	5.2	6.9	(0.6)	2.2	2.3	3.1
10					0.9	2.5	2.6	3.1	(0.4)	1.1	1.2	1.4

TERMS OF LENDING  
Debt Service Coverage

CASE	TYPE I Y E A R				TYPE II Y E A R				TYPE III Y E A R			
	1	3	5	10	1	3	5	10	1	3	5	10
a 1	NOT TESTED				2.4	2.4	2.3	2.4	0.9	2.0	1.8	1.7
2	2.2	3.2	3.2	3.1	2.4	2.4	2.4	2.3	0.9	2.0	1.8	1.6
3	2.2	2.7	2.6	2.5	2.4	2.0	2.0	1.9	0.9	1.6	1.6	1.4
4	2.2	2.0	2.0	1.8	2.4	1.5	1.9	1.4	0.9	1.2	1.1	1.0
5	NOT TESTED				1.9	2.2	2.1	2.0	0.7	1.7	1.7	1.5
6	1.9	2.9	2.9	2.8	1.9	2.2	2.2	2.1	0.7	1.7	1.7	1.6
7	1.9	2.5	2.4	2.3	1.9	1.9	1.8	1.7	0.7	1.5	1.5	1.3
8	1.9	1.9	1.9	1.7	1.9	1.4	1.4	1.3	0.7	1.1	1.1	1.0
9									4.2	3.0	3.0	3.0
10									1.9	2.7	2.6	2.5
b 1	NOT TESTED				1.9	2.0	2.0	1.9	0.7	1.5	1.5	1.4
2	1.9	2.8	2.8	2.7	2.0	2.0	2.0	1.9	0.7	1.5	1.5	1.4
3	1.9	2.4	2.3	2.2	2.0	1.7	1.7	1.6	0.7	1.3	1.3	1.2
4	1.9	1.8	1.7	1.6	2.0	1.3	1.2	1.2	0.7	1.0	1.0	0.9
5	NOT TESTED				1.5	1.7	1.8	1.7	0.5	1.3	1.3	1.3

TERMS OF LENDING  
Debt Service Coverage

CASE	TYPE I Y E A R				TYPE II Y E A R				TYPE III Y E A R			
	1	3	5	10	1	3	5	10	1	3	5	10
6	1.5	2.6	2.5	2.4	1.5	1.7	1.8	1.8	0.5	1.4	1.3	1.3
7	1.5	2.2	2.1	2.0	1.5	1.4	1.5	1.5	0.5	1.1	1.1	1.1
8	1.5	1.7	1.6	1.5	1.5	1.1	1.2	1.1	0.5	0.9	0.9	0.8
9									3.3	2.5	2.4	2.5
10									1.5	2.4	2.1	2.1
c 1		NOT TESTED			1.5	1.8	1.6	1.5	0.4	1.1	1.1	1.0
2	1.6	2.4	2.4	2.3	1.5	1.8	1.7	1.6	0.4	1.1	1.1	1.1
3	1.6	2.0	2.0	1.9	1.5	1.5	1.4	1.3	0.4	0.9	0.9	1.0
4	1.6	1.5	1.5	1.4	1.5	1.1	1.0	0.9	0.4	0.7	0.7	0.7
5		NOT TESTED			1.1	1.5	1.5	1.4	0.3	0.9	0.9	0.9
6	1.2	1.9	2.2	2.1	1.1	1.5	1.5	1.5	0.3	0.9	0.9	0.9
7	1.2	1.6	1.9	1.8	1.1	1.3	1.3	1.2	0.3	0.8	0.8	0.8
8	1.2	1.3	1.4	1.3	1.1	1.0	1.0	0.9	0.3	0.6	0.6	0.7
9					5.9	2.7	2.7	2.7	2.3	2.0	1.9	1.9
10					2.9	2.4	2.4	2.3	1.0	1.7	1.7	1.6

TERMS OF LENDING  
Net Income to Equity Ratio

CASE	TYPE I Y E A R				TYPE II Y E A R				TYPE III Y E A R			
	1	3	5	10	1	3	5	10	1	3	5	10
a 1		NOT	TESTED		2%	14%	14%	16%	(12)	8%	7%	7%
2	1%	26%	26%	26%	2	14	14	16	(12)	7	6	8
3	1	26	27	30	2	14	15	18	(12)	8	6	10
4	1	27	28	33	2	15	16	21	(12)	8	8	13
5		NOT	TESTED		(1)	11	12	13	(15)	4	4	4
6	(2)	24	24	26	(1)	12	12	14	(15)	4	5	5
7	(2)	24	25	28	(1)	12	13	16	(15)	4	6	8
8	(2)	24	26	33	(1)	12	14	20	(15)	5	7	12
9									(3)	13	13	14
10									(6)	10	10	11
b 1		NOT	TESTED		(2)	9	9	10	(14)	1	1	3
2	(2)	20	21	23	(2)	9	9	10	(14)	1	2	3
3	(2)	21	21	24	(2)	9	10	12	(14)	1	2	4
4	(2)	21	23	28	(2)	9	11	16	(14)	2	4	8
5		NOT	TESTED		(5)	10	13	12	(18)	(2)	(1)	0
6	(5)	18	18	20	(5)	4	6	8	(18)	(2)	(1)	1
7	(5)	18	19	22	(5)	4	7	10	(18)	(2)	0	4
8	(5)	18	20	27	(5)	4	8	15	(18)	(1)	1	7
9									(5)	8	8	9
10									(9)	7	6	7
c 1		NOT	TESTED		(6)	5	4	5	(17)	(5)	(5)	(3)
2	(5)	15	15	17	(6)	5	4	6	(17)	(5)	(5)	2
3	(5)	15	16	19	(6)	5	5	7	(17)	(5)	(4)	0
4	(5)	15	17	22	(6)	5	6	10	(17)	(5)	(2)	5
5		NOT	TESTED		(10)	1	2	3	(21)	(8)	(7)	(6)
6	(9)	8	13	15	(10)	1	2	3	(21)	(8)	(8)	(5)
7	(9)	8	13	17	(10)	1	3	5	(21)	(8)	(6)	(3)
8	(9)	8	15	21	(10)	2	4	10	(21)	(8)	(5)	3
9					2	7	11	11	(8)	4	3	4
10					(1)	8	8	9	(11)	4	1	2

TERMS OF LENDING  
Net Cash Flow to Equity

CASE	TYPE I Y E A R				TYPE II Y E A R				TYPE III Y E A R			
	1	3	5	10	1	3	5	10	1	3	5	10
a 1		NOT	TESTED		7%	20%	20%	19%	(3%)	13%	12%	11%
2	10%	31%	31%	30%	11	18	18	17	(3)	12	10	10
3	10	27	27	26	11	15	15	14	(3)	11	6	6
4	10	21	21	19	11	9	8	7	(3)	3	0	(1)
5		NOT	TESTED		8	18	18	17	(6)	10	10	8
6	9	29	29	28	8	19	16	16	(6)	10	10	7
7	9	26	26	24	8	12	14	20	(6)	7	7	4
8	9	20	20	17	8	8	7	5	(6)	(1)	(1)	(2)
9									(7)	16	16	16
10									3	15	14	11
b 1		NOT	TESTED		7	15	15	14	(6)	7	7	6
2	7	25	25	24	7	13	12	12	(6)	0	0	4
3	7	22	21	21	7	10	10	8	(6)	3	2	1
4	7	16	15	13	7	4	3	1	(6)	(3)	(3)	6
5		NOT	TESTED		4	10	13	12	(9)	4	4	4
6	4	23	23	22	4	9	11	10	(9)	3	3	3
7	4	20	20	19	4	6	8	7	(9)	1	1	1
8	4	15	14	12	4	0	2	0	(9)	(5)	(5)	(8)
9									4	11	11	11
10									3	11	10	9
c 1		NOT	TESTED		3	10	9	9	(8)	1	1	1
2	9	19	19	19	3	9	8	7	(8)	(1)	(1)	(1)
3	9	16	16	15	3	6	5	4	(8)	(4)	(4)	(4)
4	9	10	9	8	3	0	(2)	(4)	(8)	(10)	(10)	(10)
5		NOT	TESTED		(1)	8	8	7	(12)	(2)	(2)	(2)
6	0	13	17	17	(1)	7	7	5	(12)	(3)	(3)	(3)
7	0	10	14	13	(1)	3	3	2	(12)	(6)	(6)	(6)
8	0	8	8	6	(1)	(2)	(2)	(6)	(12)	(12)	(12)	(12)
9					11	14	14	14	1	7	6	6
10					9	12	12	12	2	5	5	4

TERMS OF LENDING  
DCF Net Cash Flow Stream

<u>TOL/MODEL</u>	<u>TYPE I</u>			<u>TYPE II</u>			<u>TYPE III</u>		
	<u>a</u>	<u>b</u>	<u>c</u>	<u>a</u>	<u>b</u>	<u>c</u>	<u>a</u>	<u>b</u>	<u>c</u>
1	NOT TESTED			14.2	10.2	5.1	7.1	1.8	<-20.0
2	20.5	17.0	13.6	14.2	10.0	5.2	6.2	1.1	-3.7
3	19.3	15.9	13.3	13.2	9.3	5.3	6.6	3.3	-1.2
4	17.7	14.6	12.1	12.0	8.7	5.4	6.6	3.6	0.4
5	NOT TESTED			13.4	8.7	2.8	4.9	-2.6	<-20.0
6	19.4	15.6	12.5	13.1	8.5	3.8	5.6	0.71	<-20.0
7	18.3	14.6	11.6	12.0	8.1	4.2	5.0	2.0	-2.3
8	16.9	13.6	10.6	11.3	8.0	4.6	5.6	3.0	-0.5
9						10.7	12.0	8.0	2.7
10						8.8	10.3	6.1	-0.6



TERMS OF LENDING  
Payback Period (years)

	TYPE I			TYPE II			TYPE III		
	<u>a</u>	<u>b</u>	<u>c</u>	<u>a</u>	<u>b</u>	<u>c</u>	<u>a</u>	<u>b</u>	<u>c</u>
1	NOT TESTED			12.0	14.1	17.9	16.7	20.8	N/E
2	8.5	9.9	11.8	11.4	14.3	17.5	16.2	19.8	24.0
3	8.4	9.6	11.4	11.7	13.3	16.3	15.2	18.2	23.5
4	8.2	9.3	10.9	11.2	12.4	15.0	14.1	17.0	21.5
5	NOT TESTED			12.7	15.9	21.0	18.4	23.5	N/E
6	9.1	10.7	12.8	12.4	15.2	19.1	17.8	21.8	N/E
7	9.0	10.4	12.2	12.6	14.4	17.4	16.4	19.7	N/E
8	8.5	9.9	11.5	11.8	13.1	15.9	14.6	17.9	22.8
9						13.7	13.5	15.0	19.2
10						14.8	13.7	17.0	22.0

N.B. Does not include 2-year construction period

The terms of lending used were:

<u>Case</u>	<u>Years</u>	<u>Interest Rate</u>	<u>Grace Period</u>
1	27	7 1/4	3 years (2 construction and 1 operation)
2	23	7 1/4	- do -
3	18	7 1/4	- do -
4	13	7 1/4	- do -
5	27	9	- do -
6	23	9	- do -
7	18	9	- do -
8	13	9	- do -

The 7 1/4% and 9% rates were chosen as the Bank's and IFC's current lending rates. In addition, the following cases were tested for Type IIc, and for all of Type III:

<u>Case</u>	<u>Years</u>	<u>Interest Rate</u>	<u>Grace Period</u>
9	27	2%	3 years
10	27	4%	"

Thus, the initial matrix of tests gives results for a range of possibilities under a given set of assumptions. The additional cases give meaningful insight into the effects of easing the interest rate.

The complete matrix of combinations is as follows (where a, b, and c refer to the different GOP streams; and 1-8 and 1-10 refer to terms of lending combinations):

<u>Type I</u>	<u>Type II</u>	<u>Type III</u>
a, 1-8	a, 1-8	a, 1-10
b, 1-8	b, 1-8	b, 1-10
c, 1-8	c, 1-10	c, 1-10

Results for the various measurement criteria are presented in this format wherever possible. As an example, Type IIb4 is reproduced in Table 2 to illustrate the procedure. Tables showing the equity DCF, the payback period, the EBIT/interest ratio, the debt service coverage ratio, the net income/equity ratio and the net cash flow/equity ratio for all combinations are included in Annex 4.

TABLE 2

Terms of Lending  
 Example of Procedure, Hotel Type II b 4  
 (per \$1,000 of investment cost)

Y E A R	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6-25</u>
Occupancy	50%	55%	60%	60%	60%	60%
Average room rate	1.00	1.00	1.00	1.00	1.00	1.00
<u>Income Statement (See Table 1 )</u>						
Total sales	365	402	438	438	438	8760
Total expenses	<u>284</u>	<u>297</u>	<u>311</u>	<u>311</u>	<u>311</u>	<u>6220</u>
Gross operating profit	81	105	127	127	127	2540
Depreciation	40	40	40	40	40	800
Interest	<u>47</u>	<u>47</u>	<u>44</u>	<u>40</u>	<u>36</u>	<u>119</u>
Profit before tax	(6)	18	43	47	51	1621
Income tax	<u>-</u>	<u>3</u>	<u>11</u>	<u>12</u>	<u>13</u>	<u>405</u>
Net income	<u>(6)</u>	<u>9</u>	<u>32</u>	<u>35</u>	<u>38</u>	<u>1216</u>
<u>Cash Flow</u>						
Net income	(6)	9	32	35	38	1216
Depreciation	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>800</u>
Cash generation	<u>34</u>	<u>49</u>	<u>72</u>	<u>75</u>	<u>78</u>	<u>2016</u>
Replacements	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>160</u>
	26	41	64	67	70	1856
Principal amortization	<u>0</u>	<u>47</u>	<u>50</u>	<u>54</u>	<u>58</u>	<u>438</u>
Net cash flow	<u>26</u>	<u>(6)</u>	<u>14</u>	<u>13</u>	<u>12</u>	<u>1418</u>
<u>Rates of Return</u>						
Project DCF	10.5%					
Equity DCF	8.7%					
Payback period	12.4 years					
<u>Ratios</u>						
EBIT/interest	0.9	1.4	2.0	2.2	2.4	-
Debt service coverage	2.0	1.3	1.2	1.2	1.2	-
Net income/equity	(2%)	3%	9%	10%	11%	-
Net cash flow/equity	7%	(1%)	4%	4%	3%	-

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## ANALYSIS OF RESULTS AND CONCLUSIONS

The analysis is based on the measurement criteria established in Section \_\_\_\_\_. These criteria are selective and can only be applied collectively - that is, failure to measure up to the minimum standard set on one test is not sufficient reason for rejecting a project, if it measures up on other criteria. The payback period, for example, has well known limitations and can result in wrong decisions. The discounted cash flow techniques are the only ones which give the "correct" rate of return in all cases. Yet DCF returns, while indicating overall project returns, do not satisfy the informational and analytical needs of lenders whose main interest is protecting their investment. But, above all, an individual project is only as sound as the forecast of operations - in this case the gross operating profit streams (GOP). Tables summarizing the results for the measurement criteria are included in Annex 4.

### Type I

The Type I hotel, not unexpectedly, is feasible at each of the three GOP levels. The minimum criteria, in fact, are exceeded since they met in the third year of operation for the EBIT/interest ratio and the debt service coverage ratio. These projects have strong earning power and residuals available for dividend returns to equity are quite satisfactory. The net income and net cash flow to equity ratios are high, the payback periods are acceptable and the DCF rate of return to equity in no case falls below 10%.

The implications for terms of lending policy are that (within the range tested and with the assumptions made): -

- (1) any combination of the terms of lending can be serviced adequately with a good margin of safety, and
- (2) such projects should be attractive to hotel investors.

## Type II

From the lender's viewpoint under cases 1-8, the EBIT/interest and debt service ratio minimum requirements are met for the Type IIa and b projections, but not for the Type IIc projections. The EBIT/interest ratio for Type IIb cases 5-8 do not reach 2.0 by the 5th year of operation - but it does by the 10th year in cases 7 and 8 indicating that with adjustment in the terms of lending the projects might be acceptable. In fact, by reducing the interest rate to  $7\frac{1}{4}\%$  from  $9\%$  the EBIT/interest ratio requirement of 2.0 is met. The Type IIb model is responsive to changes in the interest rate; at the same time, it can be noted that the length of the loan has little influence on the EBIT/interest ratio - results are improved by reducing the interest rate but not by altering the length of the loan. The Type IIc model does not meet the EBIT/interest requirement but in cases 1, 2, 3, 4, 5, 6 and 7 it meets the debt service coverage ratio requirement - only for the 13 and 18 year loans does it fail to satisfy this requirement. It is apparent that with softer terms Type IIa, b and c could be acceptable risks for lenders.

In fact, cases 9 and 10 representing softer loans, meet the minimum EBIT/interest and debt service ratios comfortably.

From the point of view of investors, Types IIa and b in general meet the minimum requirements; Type IIc does not. The net income and net cash flow ratios to equity clearly show that the cut-off point for project acceptance is case 8 of Type IIb. As further confirmation of the cut-off point, the payback period exceeds 15 years in all Type IIc projects except Type IIc4 where it is exactly 15 years, and therefore by this criterion, Type IIc must be rejected. The equity DCF is acceptable for cases 1-4 - apparently this is due to the uniform economic life assumption of 25 years

where there is substantial cash flow in the years after loans have been repaid (this is particularly noted in projects with shorter loans).

Again, under cases 9 and 10, by softening the terms of lending, the Type IIc projects become acceptable for investors under the established criteria.

The implication for terms of lending policy is that hotels in the nature of model Type II in general meet lenders' criteria for acceptance, and in those few cases where they do not, "softer" terms render them acceptable. Or, if the room rate per \$1000 of investment is at least \$1, loans at 7 1/4% and 9% from 10-25 years can be serviced by the projects. If the room rate falls below \$1 per \$1000 of investment, 25 year loans with rates equal to or below 7 1/4% are required to render the projects acceptable. However, the Type II model is a pivotal one and many projects may be marginal, particularly in Type IIc cases, and require careful attention to terms of lending so that the project is acceptable to lenders and investors respectively.

### Type III

From the lender's viewpoint, in cases 1-8, Type III projects are not acceptable as they stand under the EBIT/interest ratio criterion, although by the 10th year of operation, Type IIIa would be marginally acceptable. Under the debt service coverage ratio criterion, Type IIIa is acceptable except for cases 4 and 8. Under Type IIIb as the length of loan approaches 25 years, the projects become acceptable. Type IIIc is not acceptable as measured by the debt service coverage criterion. The Type III model simply does not generate enough gross operating profit to adequately service loans up to 25 years at 7 1/4% and 9% rates of interest.

In cases 9 and 10, where the interest rate is reduced, projects of the Types IIIa and b become acceptable - and Type IIIc at 2% becomes acceptable.

Mr. Vinod Dubey

July 2, 1973

Ian Hume (typed in final after Mr. Hume's departure)

A Note on Suggested Future Study of Migration in Europe

1. In response to your memorandum to Files dated June 19, in which you ask for an outline of issues and the best means for the Region to pursue them, I have the following rather hastily gathered ideas:

2. The Issues: In grouping together the social aspects of the migration which are of interest to the Bank I would draw a broad distinction between two underlying sets of issues, namely those concerning projections and those concerning policy, as follows:

- (a) What will the course of migration be during the remainder of this decade? Allied to this question, what will the future volume of remittances be? For the sake of a name and brevity I would refer to these questions as the "projection issue". I think for the Bank this contains the substance of most importance. Can we expect a volume and pattern of migration through the 1970's comparable to that experienced in the 1960's, with a similarly marked impact on the economies of the countries involved?
- (b) What, in fact, has been the impact of the migration, particularly in the labor sending countries (where we have a policy interest) and, in the light of this, what can be said about the migration policy of these countries? Should they encourage or discourage further migration, or should they adopt a selective approach? The subjects contained under this heading (the policy issues) are many and complex. Essentially, they encompass the difficult issue of assessing the costs and benefits of migration, in which very little progress has been made in any of the literature on this subject. However, there are individual aspects of the broader policy issue, which might be studied separately. I would list the following as the most important of these: the direct income effects of the migration; the impact on the labor market in the sending country and particular by the supply of skills; the utilization of remittance receipts (as between consumption and investment), return migration, its rate and its implications.

3. I make the judgement that, the projection issue is of first importance to the Bank not because I regard the policy issue as unimportant, but for the reason that future remittances have a direct influence on the credit worthiness of the labor sending countries.



4. Bank Response: How should the Bank pursue these issues? On the question of the projections, my earlier work has gone some way to painting a picture of the underlying conditions likely to persist in Europe throughout this decade. There will, however, be a definite need to update this work in the light of recent changes in some of the possible intervening factors, including such things as a changing political acceptance of migrants in the receiving countries, the entry of Britain into EEC, and the changing prospects for economic growth in view of inflation and currency realignments. I would judge that the best timing for this work would be about a year from now when the implications of these changes may be clearer. This could be achieved by a short mission (say two weeks) to the major receiving countries (1) with a three week write up, giving five man-weeks in all.

5. Of course, the situation in sending countries is not irrelevant to the future volume of migration. Some sending countries (Greece, Portugal) have begun to exhaust their labor surpluses while in others (e.g. Yugoslavia) particular types of skilled labor have been rendered scarce partly as a result of previous migration. To cover all the countries involved (as well as the receiving countries) in a special study would not in my judgement be worthwhile. Rather, we should try to build a stock of knowledge about conditions in the receiving countries from our regular economic missions to these countries. One way to ensure a comprehensive and standardized collection of material would be to draw up a brief for country economists. If you like this suggestion I would be happy to assist in the drafting.

6. The volume of future migration is only one of the factors affecting the volume of future remittance flows. It would be, I think, worth a separate study to try and broaden our knowledge of precisely what other factors have an influence on remittances. This would help both in making more realistic remittance forecasts and in determining policy measures to stimulate remittance flows. There is scope for pioneering work in this field, since very little work has yet been done on the topic. This is a study which the DPS could be asked to do since to do it well would probably take six man-months. However, the study should be done soon and it is not clear whether the DPS have available staff time. We could go outside the Bank. As you know, the ILO has made an informal suggestion that we collaborate with it on research in this field. My suggestion would be to keep it in the Bank, although we should encourage the ILO in their study of the disposal of remittances.

7. On the question of the so-called policy issues, I do not think we have the staff time in the Bank to contemplate in-house work. Here I think our approach again should be to use the economic missions to keep abreast of developments, data and research in the sending countries. This is also an area in which the Bank, under its program of collaborative research might well consider financing studies outside the Bank. The Yugoslavs have already expressed our interest in doing research on this basis. The Bank should at least encourage sending country governments to take seriously the need for more data and research.

8. Summary: This suggests the following concrete courses of action:

- (i) A brief updating study of migration prospects, about a year from now. The region might be able to handle this. If not, the DPS should be asked.
- (ii) Draw up a brief for country economists, and instruct economic missions to gather material from the sending countries.
- (iii) Commission a study, ideally in the DPS, on the factors affecting remittances, and on the future volume of remittance flows.
- (iv) Explore the possibility of collaborative research on the policy issues in the sending countries.

cc: Messrs. Karasmanoglu  
Horsley  
E.K. Hawkins  
Maiss

IRH:abs

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE  
CORPORATION

**OUTGOING WIRE**

TO: HELEN HUGHES  
MERLIN ~~HEBEL~~  
KUALA LUMPUR

DATE: JULY 2, 1973

CLASS OF SERVICE: LT  
*TTT*

COUNTRY: (MALAYSIA)

TEXT:  
Cable No.: IN DISCUSSING RESEARCH PRIORITIES WITH MALAYSIAN PLANNING  
BUREAU PLEASE KEEP IN MIND EARLIER CONTACTS BETWEEN UNIT  
AND PARVEZ HASAN STOP IT IS INTENDED TO SEND NOTE TO ROBLESS  
SUMMARIZING BANK VIEW OF MALAYSIA RESEARCH NEEDS WITHIN NEXT  
FORTNIGHT STOP SUCH DESIGN PAPER IS NOW IN ADVANCED STAGE OF  
PREPARATION BY HASAN AND AHLUWALIA STOP WILL INFORM YOU ABOUT  
RESEARCH COMMITTEE DECISION ON CAPACITY UTILIZATION STOP ~~REGARDS~~  
PLEASE CABLE SUBSTANCE OF YOUR DISCUSSION WITH GILMARTIN ABOUT  
INDIAN EXPORT RESEARCH PROJECT STOP REGARDS GULHATI

**NOT TO BE TRANSMITTED**

MESSAGE AUTHORIZED BY: *Ravi Gulhati*

NAME Ravi Gulhati  
DEPT. Development Economics

SIGNATURE \_\_\_\_\_  
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

RG/mo

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Messrs. Hasan  
Ahluwalia  
Prakash

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Checked for Dispatch: *[Signature]*

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE  
CORPORATION

OUTGOING WIRE

TO:

HENRI HUGHES  
MERLIN  
KUALA LUMPUR

COUNTRY:

(MALAYSIA)

TEXT:

Cable No:

DATE: JULY 2, 1973  
CLASS OF SERVICE: LT  
TTT

INDIAN EXPORT RESEARCH PROJECT STOP RECORDS GULHATTI  
PLEASE CABLE SUBSTANCE OF YOUR DISCUSSION WITH GILMARTIN ABOUT  
RESEARCH COMMITTEE DECISION ON CAPACITY UTILIZATION STOP  
PREPARATION BY HASAN AND AHLWALIA STOP WILL INFORM YOU ABOUT  
FORTNIGHT STOP SUCH DESIGN PAPER IS NOW IN ADVANCED STAGE OF  
SUMMARIZING BANK VIEW OF MALAYSIA RESEARCH NEEDS WITHIN NEXT  
AND PARVEZ HASAN STOP IT IS INTENDED TO SEND NOTE TO ROBLES  
BUREAU PLEASE KEEP IN MIND EARLIER CONTACTS BETWEEN UNIT  
IN DISCUSSING RESEARCH PRIORITIES WITH MALAYSIAN PLANNING

NOT TO BE TRANSMITTED

MESSAGE AUTHORIZED BY:

*Handwritten initials*

NAME:

Ravi Gulhatti

DEPT.:

Development Economics

SIGNATURE:

(SIGNATURE OR INDIVIDUAL AUTHORIZED TO APPROVE)

DISPATCHED

RC/no

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IMPORTANT: See Secretary's Office for printing form

CLEARANCES AND COPY DISTRIBUTION:

Messrs. Hasan  
Ahlwalia  
Prakash

For use by Analysis Division

Checked for Dispatch

Mr. Ernest Stern

June 29, 1973

Moeen A. Qureshi *MS*

Review of Research Proposals

Messrs. Churchill, Parvez Hasan, Mazumdar and I have reviewed the following proposals for the forthcoming meeting of the Research Committee. Our reactions are as follows:

1. Employment and income distribution in Malaysia

The proposal involves calculation of labor input coefficients, by skills and wage levels, for the input/output sectors of the 1972 Malaysian tables. With this information, it is intended to evaluate employment and income implications of alternative demand patterns. The researchers expect to be able to test -- for their income and employment effects -- various policy questions and hypothesis that are likely to be raised by some of the other studies that are currently in progress, as part of the Malaysian country concentration work (e.g. should production be shifted from large to small firms? Should the construction industry be encouraged, etc.?)

There is no doubt that the project will shed some interesting light on future operational work in Malaysia. Its value for broader Bank Group sectoral or policy work is more limited, but it should enable us to use similar analytical tools elsewhere with more confidence about their potential usefulness. Methodologically, the proposal does not break any new ground; it will employ standard input-output techniques.

While this is "research" in only a limited sense, the main justification for the proposal is its usefulness as support for the Bank's operational work. The cost involved is small. The first phase of the project -- which will involve calculations of the sectoral labor coefficients -- will probably take only \$10,000 - \$15,000. We suggest that this amount be included in FY 1974.

2. Urban and Regional Subsystems in Malaysia

This proposal is in a similar mould, but needs more precise definition.

The idea is to undertake a general survey of the social and economic characteristics of two selected regions (a 'depressed' region and a 'more representative' region) so as to be able to answer a variety of questions (e.g. secondary job creation, impact of increased purchasing power, type and size of industries that are viable, etc.)

.../..

It was our general feeling that it would be advisable to focus on a few well-defined questions, to specify more precisely the type and nature of the surveys which would be undertaken, and to define how the selected questions or hypothesis would be analysed. We felt, in other words, that it was necessary to formulate more precisely both research objectives and design. Additional work on research design (particularly on the nature of the surveys to be conducted) was also required in order to have firm estimates of research costs.

In brief, the Panel felt that while, in principle, the proposal seemed a good idea, more work should be done on it. The researchers have agreed to reformulate the proposal and submit it again for consideration by the Research Committee.

MAQ:gmb

cc: Mr. H. B. Chenery  
Mr. H. Adler  
Mr. D. Avramovic  
Mr. B. Balassa  
Mr. J. Baneth  
Mr. R. Gulhati  
Mr. A. Karaosmanoglu  
Mr. P. P. Kuczynski  
Mr. H. Schulmann  
Mr. H. van der Tak  
Mr. A. Ray

Mr. R. Venkateswaran

June 29, 1973

G. J. Roth

Singapore - Research into Methods of Traffic Restraint  
Report of a Meeting with Messrs. Churchill and Yucel

1. On 26th June, 1973 I met with Messrs. Anthony Churchill and N. C. Yucel to discuss the possibilities of Bank participation in a research project designed to assist the Government of Singapore to select an efficient and practicable system of restraining the use of automobiles in Singapore.\* We agreed that the Study should concentrate on economic methods of restraint, including high parking charges, increased annual road taxes, increased vehicle registration charges and import duties, a system of "daily stickers" and electronic "point pricing" schemes. It was agreed that the above methods should be assessed in the light of economic advantages and disadvantages; administrative feasibility; and the effect on state revenues.
2. It was agreed to consider the study as having two phases, the first involving a review of the methods available, and the second a technical evaluation of the most promising methods. We felt that the first phase might cost U.S. \$20,000 (\$10,000 for the services of a good Singapore economist for one year, and \$10,000 for the advice and travel costs of an expatriate expert) and that the second phase could cost anything up to U.S. \$250,000, particularly if it was intended to purchase and test electronic meters and "pricing points", or other types of "hardware".
3. Mr. Churchill considered that there was a good chance that the foreign costs of the first phase could be financed by means of a grant from the Bank's research budget. He felt it unlikely that the second phase could be financed in that way and suggested that a more suitable method might be a Technical Assistance grant or a Bank loan. We agreed to go ahead and prepare a proposal for phase 1, and postpone consideration of phase 2.
4. It was agreed that the proposal should be formally made by the Urban Projects Department and that the Transportation Department would be designated as a "Coordinating Department". It was agreed that I would draft the Terms of Reference for the study and that Mr. Yucel would prepare the formal application to the Research Committee. It was also decided to send a cable to you in Singapore asking whether you could obtain agreement in principle from the Government of Singapore to meet the local costs of the study.

---

\* See Section VIII of my Back-to-Office and Final Report dated June 18 "Research into Traffic restraint in Singapore".

GJR

GJR:lm1

cleared with and cc: Messrs. Churchill, Yucel (Trans. Dept.)  
cc: Messrs. Sadove, Dunkerley, Bohr, Iverson, Strombon, Hara, Amin-Arsala

## OFFICE MEMORANDUM

TO: Files

FROM: I.T. Christie *ll*

SUBJECT: Policy and Research - Terms of lending

DATE: June 29, 1973

1. On Friday, April 20, Mr. Tolbert called a meeting to discuss the proposed outline for the terms of lending study. Messrs. Glaessner, Simmons, Bauer and Christie attended. (The draft of this memorandum was circulated on April 26, 1973).
2. A copy of the proposed outline for the terms of lending study is attached reflecting the changes suggested at the meeting. These changes were mainly (a) altering the emphasis in the statement of objectives, and (b) delaying a review of the current lending policy of institutions financing hotel projects until after the main basic research is complete.
3. It was decided that the study would focus on the lender of long-term funds and his interests, but at the same time recognize that the interests of equity participants, other lenders and management would themselves affect the terms of lending for the long-term debt. Given the focus of the study, the important criteria are (1) the size of the principal loan and the margin of safety in the event of default and (2) the ability of forecast earnings to service the debt over the entire economic life of the project. Thus emphasis in the research should be given to:
  - i. projecting gross operating profits for the economic life of the project;
  - ii. calculating fixed charges to give net profit; and
  - iii. calculating simple cash flow.

These would be based on selected classes of hotel using typical investment and operating criteria for the projections. These models would be tested under different terms of lending assumptions to determine suitable combinations for individual hotels.

4. Since there are many combinations of the terms of lending it was proposed that processing by computer would simplify the task of handling the data and permit sensitivity analysis to be made. The department presently has no suitable model for making projections of hotel investments, although in the next fiscal year time has been allocated to develop one. It appears that it would be a duplication of effort to develop a model for testing terms of lending hypotheses and later to develop another model for hotel investments. Accordingly, as part of the terms of lending study, it was decided to review computer models already available to determine whether any one could be used for the terms of lending and for the more complete study at a later date.



5. The following computer packages were reviewed:

i. Hotel Investment Model, MATHEMATICA

This model was originally developed for use in the Babin Kuk Project. It calculates economic rates of return but no financial rate of return or indeed any financial analysis. Consequently, it was determined that this program was not useful for the terms of lending study.

ii. Feasibility Study for a Hotel Investment, PETRIN

This is a program prepared by Setec Economie. The information on hand presently is merely a description of the package but it seems from information available that the program in general is well thought out and comprehensive. We are presently awaiting more information from Paris to determine exactly how useful the program is (this is expected in the near future). It is conceivable that this model could be used for the terms of lending study, the main disadvantage being that it might be difficult and a little time consuming to handle.

iii. FINPRO and FINPRO-TELECOM

These are two packages prepared by the Public Utilities Projects Department. FINPRO was tailored for water and sewage projects. FINPRO-TELECOM was prepared for telecommunications projects. Each of these packages was based on Service Bureau Corporation's PROPHIT package. Neither of the FINPRO models is suitable for our present purposes but the department concerned expressed confidence in the FINPRO model - as one adaptation of PROPHIT, it is successful. As discussed in the next paragraph, the PROPHIT package offers one possibility for developing a hotel model.

6. I talked with Mr. Slade of Computer Services to ascertain what input they might provide. They have only nominal funds for assistance to the Tourism Projects Department this fiscal year; in fiscal year 1974 they have time allocated based on our budget to develop a hotel model - the earliest we can hope to have assistance on that is July. Mr. Slade indicated that his department is unlikely to be able to provide assistance for the terms of lending study but suggested:

- i. submitting a proposal to the Research Committee to fund the study; and

To: Files

- 3 -

- ii. meeting with Service Bureau Corporation's representative to discuss technical assistance to develop a variation of the PROPHIT model for hotel projects.

7. There seems to be no quick answer to getting computer assistance for the terms of lending study. The alternatives are (1) to proceed with the study on a manual basis which would mean getting results for a very limited selection of alternatives or (2) to wait for information on PETRIN and/or explore the PROPHIT package further, either of which alternatives involves delays but would result in a contribution to the overall research program.

ITChristie/da

cc: Messrs. Tolbert, Glaessner, Simmons, Odone, Calkins, Iizuka, Bauer

## OUTLINE - TERMS OF LENDING STUDY

1. Statement of objectives
    - examination of typical hotel projects to determine appropriate terms of lending
  2. Proposed methodology
  3. Concept of a hotel as a business
    - service industry
    - measurement criteria
    - financing and attraction of hotel investments
  4. Terms of lending
    - A. Basic model - designed to show the effect of terms of lending (defined below) on net profit and cash flow  

Develop:

      - i. basic assumptions
      - ii. project costs
      - iii. financial plan:
        - a. debt/equity structure
        - b. terms of long-term debt
          - percentage of project cost
          - grace period
          - interest
          - length of loan
          - method of payment
      - iv. gross operating profit
      - v. financial charges

Using the above:

      - i. run the model under first set of instructions to test and debug
      - ii. run the model under selected combinations of terms of lending
      - iii. compile results
    - B. Advanced model - computerization to provide flexibility and permit sensitivity analysis
5. Current policy of lending agencies, local and international, on hotel projects
6. Main findings
7. Summary and conclusions

generally increasing returns to scale in comparative projects I hope it will be possible to consider supporting both. Mrs. Epstein has apparently made it clear to others that if she had to choose one part or the other she would take the Asian part.

It is apparent that the original date for starting the project, which meant selecting students by July 1, must have passed. I do not know what this means for the project as a whole. What I would like to do is to bring Mrs. Epstein here for a couple of days, during the next two or three weeks if possible, to discuss her project and explore whether the way she sees the problem is compatible with the way in which I think we should look at it. If it is we could discuss how it might be modified to meet the Bank interest in this. We could also explore whether the financing can in some way be shared with another source so that we should not be quite so involved in financing the writing of potential Ph.D. theses. We might then have something for the Research Committee. I understand, however, that the Research Committee may by then no longer have any money.

Before I go ahead with this I would like to get your views, both as to the proposal itself and to the possibility of Bank finance. If the Research Committee can't do it, then I would like to consider the possibility of trying to get it from the UNFPA. However, ideally, I would prefer to do this when we are ready to ask for more money for the whole population policy field. As you know, we are some way from being able to do this, and if we wait until we are ready this would inevitably slow down this particular project.

TK/hs

cc: Messrs. A. Stevenson  
R. Gulhati  
E. K. Hawkins

Mr. E. Stern, DPS

June 29, 1973

Timothy King - P&HRD

Research Proposal by Mrs. Scarlett Epstein

Although in its present form obviously not suited for immediate submission to the research committee, the enclosed research proposal strikes me as being potentially the most exciting and interesting research project in the field of population that I have seen for some time. At the population review last week there was general endorsement for the view that we need to understand a great deal more about the determinants of fertility at the micro level. There was some divergence as to whether the emphasis should be placed more on surveys or on experiments with different incentive schemes. There is plainly room for both and I hope eventually our research program will involve both sorts of activity. The approach of Mrs. Epstein is a third - and I think in many ways an even more promising approach to micro level population work - that of using anthropological techniques to study population behavior on a comparative basis in a number of different settings. I have personally thought for at least three years that this is one line of approach we might encourage but have never until now found any way to organize it, or indeed found many anthropologists with interest in the right questions.

As it stands now, the proposal has several features which are obviously unattractive or unacceptable to us, but which I hope might be removed. In the first place, too much emphasis is being placed on the effects of population growth rather than its causes. Of course income distribution is of extreme interest to us, but we should want the research to give at least equal attention to looking at the economics of the household size in relation to fertility determinants. Implicitly this is included in the section on cost benefit considerations, but I think one could bring this out very much more and make it a major research objective. The main problem is that much of the expense goes for training foreign graduate students in the U.K. However desirable the objective of getting population-minded Ph.Ds in LDCs, this presumably is not something on which we could ordinarily support. I think Mrs. Epstein is right that such researchers may be more suitable (and certainly cheaper) than trying to get fully fledged academics. In addition, bringing them to Sussex for an extended visit is a much surer way to get a series of comparative products, than simply assigning the same research design to eight different LDC institutions brought together if at all for merely the occasional conference. However this does mean that a rather large proportion of the expenses go to training and writing at Sussex. Perhaps a way around this would be to see whether ODA or other sources could support at least a chunk of the student's time at Sussex, leaving us to pick up the other parts of the project.

The project is split into two potentially separable parts, one dealing with India and Sri Lanka, the other with Africa. Since there are

VOP. Research  
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Yellow copy

Mr. A. Ray

June 27, 1973

Attila Karaosmanoglu

Proposals for Research Projects in Education

Mr. Yenil and I reviewed three education projects on June 19. Also present were Messrs. Letham, Erder and Jallade. Mr. Ahluwalia, who was a member of the review panel, was unable to attend but I discussed the proposals with him after the meeting.

The conclusions of these discussions may be summarized as follows:

Basic Education Models in West Africa. Several factors suggest that this project should be regarded as a high priority topic. It is closely related to the Bank's operational needs while it will be testing new grounds for the development of alternative educational strategies especially in the least developed countries.

At this stage, only an outline for the methodology has been suggested. In fact the first stage of the project involves, to a large extent, development of the methodology which will be used in the work of five research units that are being established in the IDA financed education projects in the countries concerned.

We would like to recommend to the Committee the approval of the project. We feel, however, that since it is a relatively large project the search for possibilities for contribution by some outside agencies should be increased. (I understand that some contacts with UNICEF and the French agency, FAC, are under way). Also, due to the novelty of the area and the subject, a more than routine monitoring and reporting effort should be programmed by the sponsors of the project.

Student Loan Schemes and Other Forms of Cost Reallocation: A Systems Approach to Education Financing. In response to the comments on the first review of this project, the panel received a memorandum by Mr. Jallade expanding on the proposed methodology and the policy relevance of his research. The panel was also told that the results of the first phase of the project - Public Expenditures on Education and Income Distribution in Colombia - was discussed at a recent seminar. The supporting memorandum and discussion with Mr. Jallade helped to clarify some points but did not, on the whole, abate the earlier reservations cited in my memorandum of May 22, 1973. The relevance of the studies to the objectives implied by the general title of the project is still not clear to us and the outline of the two case studies raises questions of both method and data resources.

June 27, 1973

It became clearer to us that the Brazil study will aim at taking the methodology of the Colombia study one step further. That is, instead of inferring income transfers between income groups by comparing the total tax burden of these groups with the education subsidies they get in the form of public education, the total tax burden of socio-economic groups in Brazil will be compared with the increased earning benefits of these groups in order to arrive at income redistribution effects of education finance. As had already been pointed out before the Colombia study started two years ago, there is the general question of what meaning can be attached to income distribution implications of comparisons between total tax burden and one single item of public expenditure. But even if this would provide any meaningful measure, the steps that would be involved in carrying out the analysis with any reasonable degree of validity are quite formidable, particularly given the fact that the study has to depend on existing data:

The earnings of socio-economic classes due to education inputs have to be separated from other sources of earning differentials.

The earnings have to be identified over the life cycle of individuals.

The benefit flows calculated have to be discounted.

Tax incidence has to be calculated according to socio-economic groups.

Price level changes have to be taken into account.

Mr. Jallade agreed with the complexity of these analyses, but felt that the crucial magnitudes could be estimated with the help of simplifying assumptions. He intends to depend on tax and consumer survey data in about four states in Brazil. He also intends to make use of Professor Sahota's expertise on Brazil's public finances.

The second part of the request, the case study of private education in Mexico, may produce some useful information about Mexican education, but it is still not clear what general conclusions can be obtained from such a case study. It is not likely that cost and quality comparisons between private and public secondary education in urban areas in Mexico will help us to find out "to what extent and under which conditions can private education contribute to alleviate the public finance crisis without jeopardizing the trend towards more equality of educational opportunity and equity", as stated by Mr. Jallade in his supporting memorandum.

In view of these reservations, the panel recommends that the second phase of the "Student Loan Schemes and Other Forms of Cost Reallocation" be postponed until the research focus is reoriented towards well-defined and manageable problem areas of policy interest in education finance.

Cost Effectiveness of a Vocational Scheme. This is a small project with a clearly definable framework and objective. Its conclusions will apparently have some relevance to several other Latin American countries which have similar systems of vocational training. We felt that it would be worth supporting.

AKaraozmanoglu:OYenal:mb

cc: Mr. Yenal  
Mr. Ahluwalia



Note to: Mr. Benbrahim

June 27, 1973

Thru : Mr. J. A. Simmons

From : A. Hayman

Subject: European Market Study

1. I would greatly appreciate your help in preparing the terms of reference and work program for a review of the European tourist markets, which we propose to carry out during FY74. This review will in due course need to be coordinated with similar work on N. American (Mrs. Galvo) and Japanese (Mr. Iizuka) markets.

2. The steps in preparing this study are:

A. Basic data

- i. Review of available data.
- ii. Abstraction of key indicators and preparation of statistical summary reflecting information currently available.
- iii. Identification of data gaps.
- iv. Proposals for filling gaps.

B. Forecasting

- v. Review of concepts and methodology of current forecasts.
- vi. Summary of results of forecasts, with performance where available.

C. Study design

- vii. Terms of reference for proposed study.
- viii. Estimated inputs (staff, consultants, travel, subsistence, purchases of material, computer time, etc.).
- ix. Work plan and timetable.

3. A valuable by-product of this exercise will be item ii which should provide a convenient reference to data which we constantly need. I attach an outline which may be helpful, and I would be glad to review with you the most promising sources, and their probable reliability.

Attachment

As stated above

AHayman/da

cc: Mr. A. Odons

## EUROPEAN TOURIST MARKETS

Preliminary outline of basic data.

### I. Tourist statistics

1. Review of sources.
2. Summary of travel surveys (dates, coverage, sample, cost, etc.).
3. Historical growth of tourism - main indicators ( departures/arrivals, expenditure, visitor nights, etc.).

### II. Tourist forecasts

1. Review of available forecasts (source, methodology, etc.).
2. Summary of quantitative forecasts.

### III. Demographics

1. Population projections (age, sex, income level, etc.).
2. Projected income distributions (family income, disposable income, etc.).

### IV. Household budget surveys

1. Review of sources.
2. Past trends in leisure expenditures.
3. Projected "leisure" expenditures.

### V. Study design

1. Identification of main data gaps.
2. Identification of conceptual problems in tourist forecasting.
3. Outline terms of reference for proposed study, timetable, estimated inputs required.

Countries to be covered:

Austria, Belgium, Denmark, Finland, France, Fed. Germany, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and Yugoslavia.

OUTLINE OF BASIC TABLES

Table 1. Available travel research sources

<u>Country</u>	<u>Name</u>	<u>Sample</u>	<u>Date</u>	<u>Outline coverage</u>
Austria				
Belgium				
etc.				

Table 2. Foreign travel indicators <sup>1/</sup>

<u>Country</u>	<u>Definition</u>	<u>Year</u>	<u>No.</u>	<u>Growth rate % p.a.</u> <u>from</u> <u>to</u>
Austria				
Belgium				
etc.				

Table 3. Propensity to travel abroad  
(foreign holiday-makers per '000 population)

<u>Country</u>
Austria
Belgium
etc.

<sup>1/</sup> (e.g. Departures overseas. Foreign holidays. Foreign holidaymakers. Nuits overseas. Holiday expenditures)

DETAILED TABLES

To the extent that data are available, comparative tables on the following: <sup>1/</sup>

ALL ADULTS - PROFILE AND GENERAL HOLIDAY INFORMATION

Section A. Holidays

Number of holidays of 4 nights or more away from home  
Way in which longest holiday break was spent  
Plans for holidays not taken; reasons for cancellation  
Reasons for choosing abroad, rather than home  
Reasons for choosing home, rather than abroad

Section B. Holidays Taken in Previous Years

Holidays away from home in past 3 years - summary  
Place of holiday  
Type of holiday/and sea crossing  
Place of holiday  
Type of holiday/and sea crossing  
When last abroad holiday taken before past 12 months  
Winter sports holidays before past 12 months  
Trips of 1-3 nights away from home

Section C. Profile of Holidaymakers and Non-Holidaymakers

Age, sex and marital status  
Socio-economic group  
Level of education  
Region of residence  
Present or former occupation of head of household

---

<sup>1/</sup> All this information, and more, is available on a regular annual basis for U.K. Coverage for other countries is expected to be much less complete.

Employment of head of household

Total family income before tax; number of wage-earners in household

Size and composition of household

Car, television and telephone ownership

PART 4 - HOLIDAYS IN HOME COUNTRY (H.C.)

Section D. The Timing and Type of Holiday in H.C.

Timing of main/additional holiday - first holiday of the year or not

Number of nights spent away on holiday

Month in which holiday was started

Week of month in which holiday was started - peak months only

Day of departure and day of arrival home

Type of holiday - kind and number of places stayed in

Activities on holiday

Type of holiday arrangements

Section E. Region of Holiday Destination

Regions of H.C. in which one night or more was spent

Section F. Cost of Holiday in H.C.

Total expenditure on holiday, including fares and petrol

Size and composition of party paid for

Number and ages of persons paid for

Total cost of package holiday or cruise

Cost of fares/petrol - those not on package holiday

Size of personal travelling party

Section G. Method of Travel and Types of Accommodation

Types of transport used on journey to holiday destination

Knowledge and use of motor rail service

Type of accommodation used and items included in cost of accommodation

Facilities provided in hotel room

Ownership and use of caravan

Section H. Planning and Booking of Holiday in H.C.

Sources of information used in planning holiday

When travel and accommodation were booked

Where the journey was booked

HOLIDAYS ABROAD

Section I. Timing and Type of Abroad Holiday

Earliest holiday in year; main or additional holiday; first year  
abroad; reasons for going abroad

Number of nights spent away on holiday

Month in which holiday abroad was started

Week holiday was started - peak months only

Days of departure and arrival home

Type of holiday - kinds/number of places stayed in

Activities on holiday

Type of holiday arrangements

Company organizing tour; previous experience of company

Reasons for taking a package holiday

Whether package holiday considered; reasons for not considering

Section J. Countries Visited

Countries in which one night or more was spent-Europe

Countries in which one night or more was spent-non Europe

Countries in which four nights or more were spent-Europe

Countries in which four nights or more were spent-non Europe

Length of stay in countries where one night or more spent

Section K. The Cost of Holiday Abroad Size and Composition  
of Expenditure, Travel Parties

Countries stayed in one night or more previously visited

Total expenditure on holiday including fares, petrol

Size and composition of party paid for

Number and ages of persons paid for

Total cost of package holiday/cruise

Cost of fares and petrol

Type of party travelled with; size of personal travelling party

Section L. Mode of Travel, Type of Accommodation Used

Type of flight and airline used for departure from G.B.

Seaport of departure from H.C.

Transport from port of arrival abroad to destination

Whether or not crossed sea with a car; ownership of car used abroad

Method of transport while at destination

Types of accommodation used; items included in cost  
of accommodation

Facilities provided in hotel or motel room

Ownership and use of caravan

Section M. Planning and Booking Abroad Holiday

Sources of information used in planning holiday

TV as source of information used in planning holiday

When travel package holiday or cruise were booked

When accommodation was booked, if not on package holiday or cruise

Whether holiday was advertised in company brochure; where journey was booked

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

Permanent Mission in Eastern Africa

Exelcoms House - Haile Selassie Avenue - Nairobi, Kenya  
Mailing Address: P.O. Box 30577 - Telephone 24301 - Cable Address: INTBAFRAD

Letter No. 596

June 26, 1973

Mr. B.H. Kinsey  
Rural Development Division  
Development Economics Department  
International Bank for Reconstruction  
and Development  
1818 H Street N.W.  
Washington D.C. 20433

Dear Mr. Kinsey:

Thank you for your letter of May 18, 1973. I have just returned from Lilongwe and have the following to report.

Sociological Survey (S.E.S.8)

The cards have been delivered to the Portland Cement Company, Blantyre, for duplication and dispatch. N.S.O. Zomba could not guarantee when their machine would be available for this purpose, and for this reason I have dealt with Portland Cement who will, of course, charge for the service. The cards will be airfreighted on a freight-to-pay basis, and you will be billed directly for the cost of the cards and for duplication. Incidentally, the Lilongwe Evaluation Units analysis of the Sociological Survey (Report No.9), which was completed in 1971, has still not been cleared by Government. The problem, as far as I can gather, is use of the word 'witchcraft'. It seems that the report will be cleared if re-typed with 'suspicions' used instead of 'witchcraft'. I suggest that you assume that a condition of using the cards in Washington would require the same wording.

1971/72 Garden and Yield Surveys:

These will also be duplicated and dispatched by Portland Cement Company. The card boxes will contain the Program Cards, and data cards for S.E.S.F-3/71, F-5/71 and F-6/71, which have been meshed for each grower. There is no documentation available at Lilongwe, but I enclose copies of the S.E.S.8, S.E.S.F-5/71 and F-6/71 Survey Schedules. Mr. Scott, at Lilongwe, will be posting an S.E.S.F-3/71 schedule to you direct.

1972/73 Garden and Yield Surveys

These Surveys are still under way, and cards will not be available until the end of the year. I suggest you follow this up during your next visit to Malawi which, I understand, will take place in August



June 26, 1973

or October.

Farm Management Survey

It would be totally of no value to send these cards to Washington. Edit runs have not yet been completed, and without the original schedules, it would be quite impossible to undertake any meaningful work, at least until preliminary analysis checks are completed. These could only be carried out at Lilongwe and I estimate it would take 2 months work to complete. You should review this matter again and, if an analysis is required for your study, a team would have to be sent to Malawi rather than the cards sent to Washington. I have, therefore, taken no further action on this matter.

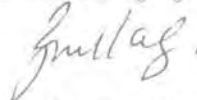
From your letter, I understood you to have the original survey schedules, relevant to the cards you collected, at Washington. I realize now that you were referring to blank copies since all the originals are still at Lilongwe. LLDP is, naturally, unwilling to part with source data and I feel that any analyses at Lilongwe Surveys will prove most difficult without source data available for reference. Meaningful analysis of the Farm Management Survey would prove quite impossible for this reason, the survey being more complex, and more open to recording problems.

I will be leaving Nairobi on June 19, and all correspondence after that date should be directed to my home address which is as follows:

Goldsland  
Wenvoe  
CARDIFF, U.K.

I expect to be at that address on or around July 20.

Sincerely yours,



R.A. Reader

(dictated by Mr. Reader and signed  
in his absence)

cc: Mr. P.J. Scott  
Lilongwe Land Development Project  
P.O. Box 259  
LILONGWE, Malawi.

Mr. A. Ray

June 26, 1973

N. Erder

Supplementary Information on the Research Proposal  
"Basic Education Models in West Africa"

I am submitting additional information in response to some of the questions raised during the review session with the subcommittee:

(a) The proposed project is expected to provide a research input for five country studies incorporated in IDA-financed education projects and a research output contributing to the formulation of education development and lending policies for the least developed countries. The estimated total cost of the country studies is about \$2 million. The total cost of the project under consideration (\$205,000) amounts to about 10% of the cost of the country-related studies, and less than 10% if the Bank staff support foreseen for this purpose (one staff member from the CPS and one from the Region are assigned on a part-time basis) is taken into account.

(b) Professional qualifications and the functions of the contractual staff required for the project (Annex 1 of the Project Proposal submitted on April 13, 1973) are:

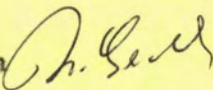
	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
1. Economist-Sociologist with planning experience (Project Leader)	)	)	)	)
2. Rural Training Specialist with field experience in the region	) 13 mm	) 8 mm	) 8 mm	) 8 mm
3. Educator with field experience in "functional literacy" type of programs	)	)	)	)
4. Language Specialist (Advisor)	) 2 mm	) 1 mm	) 1 mm	) 1 mm
5. Anthropologist (Advisor)	)	)	)	)

Negotiations with a candidate for project leadership and with two possible team members are under way.

June 26, 1973

- (c) The critical period of the first stage of the project (para. 4, (i) of the note related to "project description") is the preparation, before the end of 1973, of a framework to be used for the design of the first country study in Mali. This will require urgent action for the recruitment of the project team and intensive work during this initial period. Coordination between the project work and other country studies will be achieved through adequate phasing of these studies.

NErder/rcm



cc: Mr. Karaosmanoglu

June 25, 1973

Mr. M.H. Curtis  
Executive Director  
Transport & Tourism Technicians, Ltd.  
c/o 63 Carlton Mansions  
Randolph Avenue  
LONDON W. 9

Dear Maurice:

Re: Air Transport Research

Thank you for your letter of June 17th. I have also received a cable from Mr. Crayston to say that some sections of the completed draft have now been mailed.

We are naturally very sorry that you have had such bad luck with your health, and hope that you are now on the way to a complete recovery.

Under the circumstances, it seems reasonable to arrange for discussion of the draft before it is complete in every detail, provided, of course, that the uncompleted sections are unlikely to require major changes in the study's conclusions or emphasis as a whole.

We look forward to seeing you over here in due course. My colleague, Mrs. Doreen Calvo, may have mentioned that we would very much like you to bring with you a copy of your recent Montserrat and Cayman Islands Studies.

With best wishes

Sincerely yours,


*Andrew*

Andrew Hayman  
Tourism Projects Department

AHayman/da

cc and cleared with: Mr. J.A. Simmons  
cc: Mrs. Doreen Calvo

Mr. A. Odone

J.A. Simmons 

Investment Incentives Study: Visit of Mr. R. Chorley of Coopers & Lybrand

1. Mr. Roger Chorley of Coopers & Lybrand called to see Mr. Tolbert on June 22, 1973 to discuss the investment incentive study. I was also present. Mr. Chorley said that Coopers had been engaged in recent months on a cost/benefit study of the Channel Tunnel and in this connection had explored in some detail the prospects for travel and particularly holiday travel from the U.K. to European destinations. The detailed material on this would be available in July and Mr. Chorley said that he would send us a copy.

2. Mr. Chorley said that after reconsidering the possible team for the investment incentive study, Coopers had decided that rather than use George Richardson from Oxford University they would prefer to use Graham Pyatt from the University of Warwick, who was known to several people in the Bank, including David Henderson, Ted Hawkins, Louis Goreux and Abdel Meguid. Pyatt's main speciality, however, is labor and employment. Mr. Chorley said he had spoken to Rolf Turvey who had expressed some interest in the study but disclaimed any special expertise in the field.

3. From within the firm, Coopers proposed Don Wilkes, the head of Cooper's economic team, who was stated to be a very good economist and fluent in French. Mr. Chorley recognized that while accounting skills would be required for the study, a good team of economists was of primary importance.

4. Mr. Tolbert said that the Bank would like to use Frank Mitchell for the study as team leader. Mr. Chorley agreed that an arrangement combining Mitchell with Coopers might be possible, though the details of the arrangement would have to be worked out. Mr. Tolbert said that Mitchell was interested and the Tunisians wanted him; we had, however, to get him released for the study by the Kenyan Government, and did not yet know whether this could be done.

5. Mr. Tolbert indicated that the Bank would be interested in receiving a proposal from Coopers. He said that Mr. Odone might usefully visit London to meet the people in Coopers who would be involved in the study should Coopers get the job. Mr. Tolbert also said that if Mitchell were able to participate in the study, the Bank would at the right time arrange for him to visit Coopers in London to explore the possibility of cooperation.

6. I had earlier given Mr. Chorley a draft of the terms of reference for the study. Mr. Chorley had made some preliminary estimates of the man-months required for the study, including the study of incentive systems in Spain, France, Italy and Greece. His tentative figure was 35 - 40 man-months and he gave a provisional cost figure of £70,000. Mr. Chorley said

Mr. A. Odone

- 2 -

June 25, 1973

that his firm's offices in Spain, France and Italy would be able to assist with the studies in those countries.

7. Mr. Chorley said that he was returning to London on June 22 and would be going to Brazil about mid-July. He said that if he were not available in London for future contact, we should contact Mr. Isallancock who was informed of the project.

JAS:pp

cc: Mr. Hayman

Tunisia - Loan 852/C.32901  
✓ OP - Research

June 22, 1973

Mr. Philip Ndegwa  
Permanent Secretary  
Ministry of Finance and Planning  
P. O. Box 30007  
Nairobi, Kenya

Dear Sir:

Within the framework of a tourism infrastructure project financed by IBRD, IDA and German assistance, the Tunisian Government wishes to carry out a study aimed at providing the data and criteria necessary to improve the effectiveness of the Tunisian Hotel Investment Incentive System. Given the similarity of hotel investment incentive systems in other developing countries, the study will be most useful to the IBRD in advising other Governments who might also be interested in improving the economic, legal and administrative aspects of their systems. To arrive at meaningful conclusions, the study will not restrict itself to the Tunisian case, but will also investigate, in less depth, the hotel investment incentive systems applied in certain other Mediterranean tourist destinations, such as Spain, France, Italy and Turkey.

Because of its complexity, the study will require the expertise of a highly qualified economist with knowledge of tourism, for a period of four to five months, starting in September or October 1973. This economist will be responsible for the conceptual layout of the study and will lead the other professionals participating in the study.

In their search for suitable candidates for this position, the Bank and the Tunisian Government concluded independently that the ideal choice would be Mr. Frank Mitchell, currently assigned to your Ministry.

In the last few weeks we have had preliminary communication with Mr. Mitchell on this matter, and he has expressed his willingness to participate in the study, subject, however, to your approval.

We recognize that it may be difficult to spare Mr. Mitchell from his current assignment, but we feel confident that his work on this project would benefit not only Tunisia but eventually other of our member countries with an important tourism sector, including Kenya.

Mr. Philip Ndegwa

-2-

June 22, 1973

We should very much appreciate hearing from you at the earliest opportunity.

With kindest personal regards,

Sincerely yours,

Stokes M. Tolbert  
Director  
Tourism Projects Department

SMTolbert:va

Cleared with & cc: Mr. Hornstein

cc: Mr. Frank Mitchell  
Mr. A. Ozone



Mr. Alexander Stevenson, Director, DED

June 21, 1973

Ad Hoc group on income distribution, see list below

Papers of the ad hoc group on income distribution.

We are attaching five papers on income distribution which have gone through a second draft. They cover the topics of education, housing, population, public utilities, and transport.

At this point, there are several questions on which we would appreciate some guidance from you:

1. Are all or some of these papers ready for distribution outside the Department?
2. If so, should the Department sponsor a seminar to discuss them?
3. If so, who should be invited? When?

We look forward to your comments.

cc: Ad Hoc Group:

Others:

Mr. Bulutoglu  
Mr. M. Cohen  
Mr. Guca  
Mr. Ekstein  
Mr. Grimes  
Mrs. Lele  
Mr. Sharpston  
Mr. Simmons

Mr. Ahluwalia  
Mr. Hughes  
Mr. Keare  
Mr. King  
Mr. Yenai  
Mr. Jones

JS:mv

May 29, 1973

Education and Income Distribution: Implications for Bank Lending

John Simmons

To what extent and under what conditions can investment in formal education assist the concentration of income? When can it assist the distribution of income? Can it reduce poverty? What are the issues that relate to these questions? For this note, formal education and schooling are synonymous.

I. The State of the Art

Four basic theories attempt to explain what schooling does for individuals and society. The first, the liberal hope, argues that the schooling process generates cognitive skills and then selects individuals on the basis of competence in these skills for use in the occupational hierarchy. The second, the Jencks conclusion for the U.S., argues that getting ahead in life is much more related to personality, on-the-job competence and luck than amount of and quality of cognitive skills learned in school. The third, the behaviorist model, holds that schooling is an essential element in the socialization process: the behavioral and cognitive skills learned at the primary and secondary level are useful for becoming disciplined workers in blue and grey collar jobs, while the behavioral and cognitive skills learned at the university level are useful for the less supervised upper income jobs. The fourth theory which contains elements of the first three, is that schooling tends to encourage the concentration of income over successive generations because upper income children get more education and thus higher paying jobs than lower income children.

For developing countries only partial evidence is available to support or reject any of these theories.

We will limit discussion to the mechanisms of the fourth theory. Investment in schooling can be regressive under several general conditions:

(1) When a significant proportion of the primary school age population is denied access to schooling.

(2) When upper income children tend to get more years of schooling financed by public expenditure than low income children.

(3) When employers screen potential employees on a basis of their amount of schooling, although the cognitive or behavioral traits learned in school are not needed on the job.

(4) When the possibilities of job promotion are tied to the amount of schooling rather than job performance.

If schooling is to be a progressive force in society, then it should assist in equalizing the individual's opportunity for lifetime earnings/satisfaction. Equalizing the opportunity for schooling may be either ineffective or regressive.

## II. Guidelines for Bank Lending

What should the Bank guidelines be to either minimize regressive effects, or maximize progressive effects of educational investments?

Since rigorous economic criteria have not been used in decisions about past education projects, investment in this area has remained more of an art than a science. While awaiting some more rigorous investment criteria, it may be useful to consider the implications for Bank lending of the income distribution and poverty reduction objectives. Given the state of the art, several guidelines might be considered in the selection of future projects.

1) Focus project identification missions on the educational needs of poor children and adults. Substantial efforts will be required to determine their needs.

2) Require that a stronger economic case be made for investment in either secondary or vocational training than it has been sometimes made in the past. Signs of present or impending (i.e., within ten years) surpluses of secondary and technical graduates in selected occupations at present wage levels should be significant indication of an uneconomic set of conditions for education investments. Additional dimensions of the problem can be ascertained with by using improved social rate of return models, determinants of earnings models, and cases studies of wage trends in critical skills. If more training is still called for after this analysis, then on-the-job training should be used in most instances where general secondary or vocational training was considered optimal in the past.

3) Because of the lack of clear understanding of what constitutes an optimal project for poor children under varying econoeducational conditions, future projects should have a substantial mountering component. For example, the evaluation unit proposed for the recent loan to primary education in Indonesia could be slightly expanded to fulfill this need.

4) Other types of loans or components should also receive priority. These could include assistance in educational planning and cost accounting which remain at ineffective levels in most Bank assisted countries. Support of management education for both private and public enterprises especially social services should be considered. Low cost-effectiveness ratios can be achieved by financing recurrent costs of in-service training rather than unneeded buildings.

5) Functional literacy projects are being considered for Bank investment. In theory it is a socially and economically attractive type of project. The prototypes that have been developed in more than 11 countries in the past seven years have been disappointing. Until better information is available on both the effectiveness and the cost benefit nature of these projects the Bank should limit investment to R and D projects.

6) Basic reform of educational structures and processes are required to improve the quality and quantity of formal and informal education around the world. Bank lending for projects will not accomplish this objective. Those countries which have demonstrated a willingness to undertake basic reform should receive a disproportionately large share of Bank educational resources. Countries should be assisted to determine ways in which to minimise the dislocation caused by educational reform.

### III. Research Needs

Future research should be concentrated in two main areas. The first are input-output and cost/benefit studies of primary/basic education. This would include formal as well as non-formal and informal systems of education designed to reach the young age cohorts (3-15 years). While most adults will only get primary education, primary is now designed to train and select students for secondary education. The second is research into alternative ways of meeting the social service needs of low income people. The goal would be to produce alternative strategies for investment in human resources appropriate for varying econoeducational conditions.

Given the turmoil in the education field caused by the publication of the Jencks et al and Husen studies, there is substantial need to coordinate both the establishment of new research objectives and the implementation in order to optimise the policy results of future research.

References:

Husen, Torsten; International Study of Achievement, Stockholm, 1973.

Jencks, Christopher et al, Inequality: A Reassessment of the Effect of Family and Schooling in America, Basic Books, New York 1972.

Housing and Income Distribution

Unlike other sectors discussed in this series, housing is a new field for Bank involvement. Initial commitments have been made to the site and services approach in Senegal and Nicaragua, with several other projects scheduled for appraisal in the near future. The site and services strategy, however, requires available, low-cost land for the construction of dwellings through private investment. High density areas, where the supply of land is limited, such as Calcutta, demand alternative housing solutions with which the Bank has little experience. A preliminary housing issues paper is currently being prepared in the Urban and Regional Economics Division in order to clarify the issues raised by Bank lending for housing and to suggest areas for future research.

In spite of a lack of experience in lending for housing, the Bank's initial operational and research efforts in the urban field have suggested a general approach to urban development, of which housing is a part. The close inter-relationships between housing, land use, transportation, public finance, public utilities, the delivery of public services, and employment require that lending for housing be considered within a broader framework. Components of this framework include: land tenure arrangements, availability of credit, supply of building materials, residence-employment distances and costs of transportation, housing technologies, and building codes. While these components influence the access to housing of people of all income levels, their mix sharply delimits opportunities for low-income groups. Income distribution considerations within the housing sector, therefore, focus on the characteristics of these components as they affect the cost of housing.

Although preliminary guidelines for Bank lending in housing will be an eventual product of the housing issues paper, it is possible to assert now that Bank lending for housing should require consistency with regard to related activities and components mentioned above. Thus, Bank intervention through a low-cost housing project should be accompanied by efforts to reduce subsidies to high-income housing, to reform housing taxes, loosen building codes to permit the use of low-cost building materials, to maintain existing low-quality housing stock, and to support institutional arrangements which will deliver housing and related benefits to the target populations. Lending for housing, therefore, should be presented as a package of policy changes, the sum of which may not necessarily lead to Bank financing of housing construction but merely Bank provision of low-cost opportunities for private investment in housing.

A Bank research agenda in this field will be proposed in the housing issues paper. However, it is clear that further research will focus on the relationship between costs of housing and the various components discussed above. Experiments in LDC's have suggested that greater attention directed to the cost problem can generate low-cost solutions for particular situations.

There are two primary obstacles to efforts to develop low-income housing projects: political interests of high-income groups in LDC's and a lack of knowledge about the possibilities for experimentation in reducing costs. Most housing efforts at the present time are geared to the demand of high and middle-income groups, usually including civil servants. Expensive housing units far beyond the reach of low-income groups are constructed by public and private institutions, often with significant



public subsidies. Any effort to reduce these subsidies, as proposed above, will be opposed by a politically powerful class of the population. The Bank, therefore, must link these changes to other desired projects in order to attain these objectives. The second obstacle, lack of knowledge about experimental efforts to reduce costs, should be overcome by research and dissemination of information through Bank policy papers and project publicity.

The major conclusion, therefore, at this point in the Bank's exploratory efforts in the housing field, is that the Bank could perform a progressive, useful role, but that role requires further refinement through policy analysis and research.

Population Growth and Income Distribution

1. Rapid population growth is at present considered as one of the barriers for economic growth. It is argued that rapid growth in population slows down the growth in income per capita and furthermore forces society to use its scarce resources just to provide essential services to a population increasingly young. This could be called the capitalist argument used to convince people of the need for family planning. It assumes that provision of family planning services will reduce fertility. On the other extreme of the spectrum one can find what could be called the marxist argument which points out in the direction of redistributive measures and assumes that greater economic development produces a reduction of fertility and that family planning without other economic measures to improve equality cannot be successful.

2. Reality is possibly located between these two extremes. Fertility reductions are not realized without some measure of prior economic and social development and slowing of the rate of growth of population helps in most cases in the acceleration of economic growth. Although it is not difficult to see how average income per capita can increase faster with smaller rates of population growth, at least up to a point, it is not very clear which are the effects of slower population growth for economic and social development and more specifically for income distribution.

3. Provision of family planning services in a free or subsidized form has some effects on income distribution in the sense that it gives a sector of the population, usually the poorer ones, services which

otherwise may not have been available to that group of the population because of their lack of buying power. But, it can be argued that people may prefer to receive these income transfers in other forms rather than family planning services. It can also be argued that the provision of family planning services, as at present provided, creates new sources of employment therefore reducing unemployment and benefiting the lower half of the income groups. But these are minor effects and can also be produced by programs different from family planning programs. The main effects, those for social and economic development resulting from a lower rate of growth of population, are the important ones and there is little we firmly know about them.

4. The above observations point out <sup>to</sup> ~~in~~ the needs of research for population projects. First, there is a need in determining which are the factors that induce people to have a given number of children. Knowledge of these factors will guide in the kinds of projects the Bank should get involved in, in order to obtain a lower rate of population growth on the assumption that lowering that rate, by reducing fertility, will give the economy a better change for increased per capital output.

5. Second, research should be directed to discover the conditions under which a lower rate of growth of population produces a more equal distribution of income by benefiting not only the average person in the society but, more importantly, the people receiving the lower incomes.

This type of research will provide the necessary knowledge on the policy actions required to achieve more equality which with the possible faster growth of the economy, due to reduced rate of population growth, will produce equality at a higher level.

6. Research should also go into the kind of services which should be provided and the way of delivering these services in order to reach given goals of fertility reduction. These should specially point out a way toward the enrollment of younger people in the family planning programs and their longer stay in the programs practicing contraception.

7. The Bank projects should give especial attention to the evaluation of the programs. The first step of this is more detailed goal setting. Evaluation should also see to the satisfaction of users to insure that they become part of the programs and not just "guinea pigs" which could be one of the reasons for high drop-out rates.

8. It is not sufficient to convince people to reduce fertility with the argument that this is economically beneficial for the society or the country as a whole, it is necessary to make sure that those who contribute to the social welfare by reducing their fertility participate in the benefits. So called incentive programs should therefore be favored by the Bank.

9. Population activities of the Bank should not be directly only to lend money to those countries that ask for such loans. The activities should be expanded to the field of identification of projects even though the Bank may not be involved in particular cases. For this, economic reports should give higher importance to population than it has done in the past and should in each case point out possible solutions to the population problems. It is the duty of the Bank to explore all possible avenues toward economic and social development regardless of how touchy the problems are or of its own involvement.

Public Utilities and Income Distribution

While the Bank has become increasingly involved in public utilities projects, many of which have positive income distribution effects, it is possible to suggest areas for further improvement. The most important of these concerns pricing policies for water, power, and telecommunications. Changes in pricing policy can increase the availability of public utilities and the possibility of capturing consumer's surplus to be used for other purposes. At the same time that more people can be reached by these services - and at lower costs - it is possible to devise pricing mechanisms which will capture some of the surplus accruing to consumers, thereby generating resources for other public services. Bank operational and research experience in this field suggests that many opportunities exist to further increase the redistributive effects of public utilities projects.

Water Supply

Within the above framework, pricing for water could be changed by shifting upward the structure of high-income residential relative to low-income residential and industrial tariffs, thereby redistributing income. In this way, a surcharge on high-income consumers could be combined with rates to the poor that are below the marginal cost of provision. A policy which reflects long-run marginal costs, with a tariff structure as suggested above, could generate a surplus for other purposes. At the present time water supply for industrial enterprises appears to be heavily subsidized in some cities in LDC's. While one might argue that such enterprises generate needed employment opportunities, the high elasticity suggests that increased prices would not discourage industrial growth.

Power

Similar arguments can be raised concerning electrification. There is some evidence that the high level of subsidy for electricity in some LDC's does not need to be as high as it is. The elasticity of total revenue with respect to electricity charges in many countries seems very high on the order of 2.5 to 3. This suggests that substantial scope exists for levying surtaxes on water consumption without impairing the locational decisions of industry. Thus it would be possible to devise a pricing policy allowing greater availability of electricity for low-income households.

Telecommunications

At the present time, little is known about the income distribution effects of improving or extending telecommunications networks within countries. One example, in Senegal, illustrates that charges for one type of service, long distance telephone calls, are used to subsidize postal/financial services, such as sending money orders. The latter are important in countries in which urban migrants send remittances back to their home villages. This pattern suggests, therefore, that opportunities exist for progressive pricing policies and mechanisms which can have redistributive effects.

Given the above, it becomes clear that three major areas deserve continuing research within the Bank: 1) marginal cost pricing mechanisms, 2) the relationship between economic and financial rates of return to public utilities projects, and 3) institutional frameworks for such projects. The first area suggests that income distribution

effects can be generated through these projects, but the current insistence within the Bank that "profitability" be maintained underlines the need for careful analysis of benefits not considered within the strictly financial rate of return. Finally, to assure that consumer surplus is captured and transferred for socially beneficial purposes, attention must be focused on the institutional framework for the delivery of public utilities. This framework must be efficient as well as linked with institutions capable of utilizing the surplus that is generated.

Changes in pricing policies must be carefully researched and deliberate. However, their supporters must place such reforms into the large political and socio-economic context of the delivery of public services. Certain forces, such as industrial interests or high-income neighborhood residents, may discourage such changes, but it must be shown that the new pricing policies will generate public benefits in which all groups will share.



TRANSPORTATION AND INCOME DISTRIBUTION

1. Improvements in the transport network may have a wide variety of benefits. Two of the most well-known are savings in road user costs (vehicle maintenance outlays plus value of time) and aggregate consumption benefits arising from a higher value of good produced and marketed. Yet the redistributive aspects of these benefits are little known. Reductions in the unit cost of transport benefit producers in the form of producer's surplus. Which producers? For foodcrops, upgrading of a secondary road system in a remote rural area may make the difference between marketing part or all of a surplus and consuming it at home. Urban consumers also benefit since reductions in transport costs lower the final price of retail goods. Which consumers benefit most?

2. Already a fair amount is known within and outside the Bank about the nature and magnitude of these benefits. Although the incidence of producer's and consumer's surplus depends in part on the pattern of initial endowments in goods and factors of production, ultimate effects depend crucially on which products are involved. A road improvement may mean lower unit costs for the entire range of cash and marketed subsistence crops produced in rural areas. There is some evidence that the amount by which consumers benefit depends most on the income elasticity of demand for each good, although price effects are also no doubt important. As an example in foodcrops, assume that a new road means a lower delivered price of cassava on local markets relative to that of rice. Consumers would substitute cassava for rice benefiting cassava farmers but hurting rice growers. As cassava often has a lower labor requirement per unit

time than rice, increased growth of cassava would have the additional benefit of freeing more of cassava farmers' time for other activities, especially the growing of cash crops for processing and export. The incremental value in export crops grown would then be counted as a benefit of the initial road improvement project.

3. All of these considerations suggest that Bank lending for transportation projects should take the form of project packages designed to accomplish social welfare objectives rather than purely physical, financial or economic ones. The Bank has already made a small but encouraging start in this respect, in two different directions. First, in lending for feeder roads in rural areas (Yemen, Ethiopia), project conception is that the road itself is part of a mix of activities including smallholder development such as credit, extension work, technical training and market information that are prerequisites to bringing remote areas into the economic and social mainstream. Second, in urban areas many transport projects involve a significant component of urban extension: improvement of street design and layout, sewerage and drainage, and above all rationalization of urban land use.

4. It should also be recognized that in financing only the foreign exchange components of road projects the Bank may be injecting a bias in project identification and execution in favor of projects using capital intensive construction methods. Projects should be geared with a maximum of labor intensiveness of construction consistent with overall project objectives. The difference between the shadow wage and salaried actually paid to labor should be counted as benefits in rate of return calculations.

Evidence is coming in that labor intensive methods of public works and road building can be efficient as well as equitable. On one project it was discovered that, except for hauling gravel and watering the road after the gravel was spread (for which trucks and waterbrowsers had to be used), all stages of the operation could be done entirely with labor intensive methods without lowering the quality of the finished road.<sup>1/</sup> Research currently underway within the Research Division, Transportation Projects Department, CPS will hopefully shed more light on these and other issues.

5. The foregoing suggests a four-part research agenda. First, much more information is needed on identification of redistributive benefits from road improvement projects. With these benefits accurately identified, research could then take the form of determining how they could be systematically applied in a cost-benefit framework, say by using a weighting system established by governments or central planning authorities. As an initial step, a sample survey of about 30 recently approved loans for road improvement should be undertaken from which a careful categorization of benefits by type (road user savings, value of production benefits, induced employment effects, external economies, etc.) and income level of beneficiary should be drawn up.

6. Second, research should focus on methods by which public revenue can be earmarked for expenditure on highways and urban streets with important social welfare benefits. If earmarking can be assured from a dependable source of tax revenue, local cost components of a loan might be more easily forthcoming thereby facilitating Bank lending and assuring

<sup>1/</sup> J. Muller, "Labour-Intensive Methods in Low-Cost Road Construction: A Case Study," International Labour Review, 101 (1970).

a steadiness in payments for construction. During the 1955-1965 period at least 31 developing countries had legislation on the books providing for earmarking of tax revenues for highways.<sup>1/</sup> The introduction of earmarking may also mean a greater level of public funds spent on high ways than would otherwise be the case.

7. Third, more needs to be known about the tradeoffs between transportation and the provision of public services in expenditure decisions of households. In rural areas, for example, upgrading of secondary roads may lead to greater profits from marketing of produce. On the other hand it may also entail a redistribution away from small intermediaries and traders in the event the road improvement means that a government-controlled marketing board can penetrate into the area and buy up all production. Small-scale local processors such as rice huskers and coffee millers using hand-operated decorticating machines may be put out of business. In urban areas the tradeoff is largely one between transportation and housing. Distribution benefits of transport projects such as improved bus service and mass transit work mainly through improving the accessibility to jobs. If a street improvement means that a low income family can live one mile closer to work, or be closer in time at the same distance, its flexibility in looking for wage employment and hence its long-run income potential would be greater.

8. Finally, the Bank's promising initial research efforts<sup>2/</sup> into closing in on the land value effects of transportation projects need to

<sup>1/</sup> Per Eklund, "Earmarking of Taxes for Highways in Developing Countries," Economics Department Working Paper No. 1, 1967.

<sup>2/</sup> Unpublished paper by Roy W. Bahl, Stephen P. Coelen and Jeremy J. Warford.

be extended and deepened. Betterment value and the means of capturing it are the crucial issues. If benefits of a road improvement are capitalized into land prices, the ultimate effects will be determined by the existing distribution of land ownership. The best way for the government to capture this unearned increment might be to reserve for itself a portion of land around the new road. This would have the added benefit of forestalling political and administrative problems connected with higher taxes on urban land.

Mr. J. Warford

June 21, 1973

Raul Schkolnick

Telecommunications Case Study Costa Rica and Sub-study on Rural Telephony in Costa Rica.

1. Following our conversations of last Friday 15 and Tuesday 19, I find it convenient to summarize the present status of this case study.
2. As a result of the visit to Costa Rica last March by Mr. Littlechild (consultant) and myself, and my visit to Costa Rica of this month, I will prepare a first progress report, including the views and findings of the consultant as well as my own.
3. This first progress report constitutes, in a sense, an overview of the whole scope of the study. Future progress reports will constitute more detailed studies of parts of the study. In effect, drafts of parts of the final report.
4. I expect to have the first progress report, mentioned above, ready for editing by July 2nd.
5. A timetable of future progress reports will be prepared after that.
6. As a follow up to the preparatory meetings and discussions towards the initiation of the sub-study in rural telephony I had during my latest visit to Costa Rica, I called Dr. Naranjo to request the research proposal at his earliest convenience and answered Mr. Cañas' letter informing him that the chances are good for a prompt decision (copies of this letter are being sent to Mr. Vasudevan and yourself, for clearance).
7. If we can tie all the loose ends and get the rural telephony under way, the study will continue in parallel in the cost side (practically all the information required is now in my hands) and the demand side (with rural telephony for the time being).
8. It is the analysis of both the supply and the demand side that will allow a comprehensive analysis of pricing possibilities. However, some partial results will be forthcoming with each progress report (including the first, to be issued in July).

cc: Mr. Vasudevan  
Blue book, files

RJ RSchkolnick: mds

Messrs. Hollis B. Chenery and Ernest Stern

June 18, 1973

Alexander Stevenson

Research Committee Decisions

1. The Research Committee's decision to defer the Lilongwe Rural Development research project (follow-up) is most unfortunate. In fact, the circumstances are such that deferral will most likely abort the attempt to obtain supplementary information (most of which is already collected) and undermine the possibility of carrying out a useful evaluation of this rather important project. Two consultants (who are a specialized resource for the research project owing to their past association with Lilongwe) have been holding themselves ready to carry out this work. If we cannot enter into a firm commitment with them now, they will no longer be available. Without them we cannot carry out the project.

2. I should mention that Mr. Chauffournier spoke to me after last Friday's seminar on the Africa Rural Development Study and said that he attached high importance to the evaluation of the Lilongwe project. Unless the decision to defer is reversed, we will not be able to meet his need. He is interested in the comparison of this project, which has involved a very substantial infusion of expatriate management, with Upper Volta, where the opposite has been the rule. I do not know whether the Research Committee was aware of the fact that deferral would likely lead to abandonment and in the circumstances I would strongly urge that the matter be reconsidered.

3. The deferral of the Capacity Utilization Study on Malaysia is also regrettable. The original scope of this study - four case studies - had had to be narrowed successively, for reasons which have never been clear to me. The importance of the subject has never been questioned. You will recall that Mr. Knapp specially remarked on the need for studying the capacity utilization question during the President's review of the work program on industry. The Boston University study on the same subject is not making much progress (see attached memo from Mr. Thoumi). I conclude that not to proceed with Mrs. Hughes' study under these circumstances is to make sure that the Bank will not be much wiser on this subject for some time ahead.

4. Mrs. Hughes is naturally upset. Her cable from Teheran is attached. The postponement of the Malaysia case study leaves the proposed consultant, David Lim, high and dry. He had cancelled a sabbatical in order to work on this study. I believe that this project should also be reconsidered.

cc: Mr. Gulhati  
 Mr. Reutlinger  
 Mrs. Hughes  
 Mr. Ray

Attachments

RGulhati/AStevenson/hl

O.P. Rensch

Form No. 27  
(3-70)

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE  
CORPORATION

**OUTGOING WIRE**

TO: REPETTO  
INTBAFRAD

DATE: JUNE 18, 1973

CLASS OF  
SERVICE: TELEX

177

COUNTRY: INDONESIA

TEXT:  
Cable No.: 926

PROPOSAL ONLY RECEIVED END LAST WEEK. IN PRINCIPLE THIS IS TYPE OF RESEARCH BANK IS ANXIOUS TO SEE DONE AND AM DELIGHTED SEE IT START INDONESIA. HOWEVER CERTAINLY NOT POSSIBLE TO SAY ANYTHING ABOUT PROBABILITY OF SUCCESS OF PROPOSAL BEFORE JUNE 22. IT WILL NEED DISCUSSION WITH POPULATION PROJECTS WHERE KEY MAN IS ON MISSION AND THEN MUST BE SUBJECT SLOW PROCESSES OF RESEARCH COMMITTEE. FRANKLY AM NOT VERY OPTIMISTIC. ALPHA INDONESIAN PROJECT CONTAINS SUBSTANTIAL RESEARCH COMPONENT WITH WHICH I AM NOT FAMILIAR BUT WHICH OUGHT TO COVER YOUR SORT OF RESEARCH. BETA UNDERSTAND INDONESIA RIDDLED WITH FOREIGN TECHNICAL ADVISORS SOME OF WHOM MIGHT BE CAPABLE OF PROVIDING GUIDANCE IF MORE THAN REES IS REQUIRED. GAMMA CURRENT USAID INVOLVEMENT SUGGESTS THEY WOULD BE LOGICAL SOURCE FINANCE DELTA EFFECTIVE COST PER <sup>CONSULTANT</sup> ~~MAN~~ DAY <sup>T-DATE</sup> ~~CONSULTANT~~ VERY HIGH EPSILON RESEARCH COMMITTEE BUDGET VERY TIGHT AND MOSTLY ALLOCATED STOP I WILL PURSUE QUESTION BUT SUGGEST YOU ALSO <sup>LOOK</sup> ~~FROM~~ ELSEWHERE REGARDS

KING

**NOT TO BE TRANSMITTED**

AUTHORIZED BY: T. L. KING, DIV. CHIEF - DEPT. OF ECONOMICS AND HUMAN RESOURCES

CLEARANCES AND COPY DISTRIBUTION:

NAME

DEPT.

SIGNATURE T. L. King  
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE:

For Use By Communications Section

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(IMPORTANT: See Secretaries Guide for preparing form)

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DEPT:

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NAME:

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AUTHORIZED BY:

J. I. KING

DIA CHIEF - DEPT. OF COMMUNICATIONS SECTION

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KING

SUCCESS FOR ALSO FROM ESTABLISHED REGARDS

*look*

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HOWEVER CERTAINLY NOT POSSIBLE TO SAY ANYTHING ABOUT PROBABILITY OF SUCCESS OF

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PROPOSAL ONLY RECEIVED END LAST WEEK. IN PRINCIPLE THIS IS TYPE OF RESEARCH

Copy No: 250

TEXT:

COUNTRY: INDONESIA

SERVICE: JETEX  
CLASS OF

*111*

TO: INTERNAL  
REF: REFELLO

DATE: JUNE 18, 1973

OUTGOING WIRE

ASSOCIATION  
INTERNATIONAL DEVELOPMENT

RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL BANK FOR

CORPORATION  
INTERNATIONAL FINANCE

*05 King*



D.P. Research

# Transport & Tourism Technicians Limited

research planning development consultancy

Date: 17th June 1973

Your reference:

In reply please quote: TT/D.46

Temporary Address  
c/o 63 Carlton Mansions,  
Randolph Ave.,  
LONDON W. 9

Tourism Projects Department	
Date Received:	JUN 25 1973
Replied by:	A. HAYMAN
Date Action Taken:	6/25/73

Andrew Hayman Esq.,  
Tourism Projects Department,  
International Bank for Reconstruction & Development,  
1818 H Street, N.W.,  
Washington D.C. 20433,  
U.S.A.

*Dear Andrew*

Am afraid we are further held up on the Air Transport Study: firstly because some new data is still coming in, secondly because of the leeway we have to make up owing to my being unfit; and thirdly, because there is much more material to analyse and condense than we had expected.

I had to have a 'break' now, whilst John Crayston is carrying on condensing some of the material and chasing up some of the missing material, and so we will be about another week getting the draft together. It will still be incomplete in some respects, but will be much longer than had been anticipated, and we can finish off the incomplete sections after discussions with you of the draft we send you?

Am going to Turkey for about five days today, else I will never shake off the effects of this inoculation nonsense, and we aim to send the draft report, as complete as possible, at the end of next week.

I saw George Thomson yesterday re Seychelles and am glad IFC is interested in the Southern Sun project there. It is a complicated situation and we arranged to discuss it further when I come across.

Looking forward to seeing you then.  
Best Wishes.

*John Crayston*

*AP* M.H. Curtis.  
Executive Director

Technicians Limited  
Transport & Tourism

111

Specialist Planning Department

Chichester House  
278-282 High Holborn  
LONDON  
WC1V 7EX  
Telephone: 01 242 8111  
Cables: Tourtec London WC1  
Telex 251884

17th June 1973

Mr. J. G. ...

Date Received:	10th 25 1973
Replied by:	J. G. ...
Date Action Taken:	10/25/73

Andrew Hayman Esq.,  
Tourtec Project Department,  
International Bank for Reconstruction & Development,  
1418 M Street, N.W.,  
Washington D.C. 20047,  
U.S.A.

*John G. ...*

I'm afraid we are further behind on the air transport study; firstly because some new data is still coming in, secondly because of the delay we have to make in making up the unit; and finally, because there is much more material to analyse and compare than we had expected.

I had to have a 'break' now, whilst John Grayson is carrying on condensing some of the material and chasing up some of the missing material, and as we will be doing another week getting the draft together. It will still be incomplete in some respects, but will be much longer than had been anticipated, and we can finish off the incomplete sections after discussions with you of the draft we send you.

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Looking forward to seeing you then.  
Best wishes.

*John G. ...*

SECRET  
D. G. THOMSON

M  
Executive Director  
... Curtis

RECEIVED

*Central Files  
TUNISIA TOURISM & INFRASTRUCTURE  
cc Tunisia Loan 855 Cr. 329 M  
cc Tunisia - Tourism Training  
cc OP - Research*

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

OFFICE MEMORANDUM

TO: Messrs. A. Odone and F. Bauer

DATE: June 14, 1973

FROM:

*Philip Glaesser*  
Philip Glaesser

SUBJECT:

TUNISIA - Tourism Infrastructure Project  
Incentives Study, Hotel Training  
Terms of Reference

1. You will arrive in Tunisia on June 18 (Mr. Bauer coming from Morocco) for a stay of about five days. You will keep in contact with Mr. Elmendorf from EMENA who will be in Tunisia during the same period.

2. The main objectives of your mission will be:

- (a) to review with the Tunisian authorities the most recent progress made towards fulfilling the conditions of effectiveness of the loan and credit for the Tourism Infrastructure project;
- (b) to discuss, and possibly firm up with the Tunisian authorities, the organizational framework and the timing of the study on the Tunisian hotel investment incentives system;
- (c) to assist the Tunisian authorities and the members of the ILO team (who will have just arrived in Tunisia) to make all arrangements needed for the timely preparation of the hotel training study.

3. On your return, you will write a Back-to-Office and Full Report on your findings.

AOdone/em

Cleared with and c.c. Mr. Siebeck

c.c. Messrs. Lee, Burney, Raizen, Engelmann, van der Tak  
Wapenhans, Tolbert, Vera, Simmons

Central Files  
Department Files (2)

R S C 6  
✓ Vol 2. P. 1

Mr. Yves Rovani

June 13, 1973

Raul Schkolnick

COSTA RICA - Back-to-Office Report

1. In accordance with my terms of reference dated May 19, I arrived in San Jose, Costa Rica on May 28, 1973.
2. I met twice with Dr. Fernando Naranjo and his associates in the Economics Institute of the University of Costa Rica. We discussed a research proposal to be presented by them to the Bank.
3. It was agreed with Dr. Naranjo that instead of presenting a proposal that would include the overall study of demand, they will limit themselves at first, to rural telephony.
4. In a meeting with Ing. Antonio Canas, Deputy General Manager for Telecommunications of the Instituto Costarricense de Electricidad (ICE), I explained to him that the Bank was studying the possibility of undertaking the above mentioned research. Mr. Canas explained to me that the ICE is planning important expansions in rural telephony and because they expected this to be non profitable in financial terms, they want an economic study made. In view of this I told him that if the Bank will go ahead with the research, a duplication of efforts would be unwarranted. He accepted this and my idea that this type of research would be better done by Costarricans. Mr. Canas said that if an agreement is reached, he would like to have one or two of his economists working with Dr. Naranjo's team. He also said that the ICE could provide transportation and field support. I told Mr. Canas that it was my personal feeling that the Bank would be better interested in undertaking the study if the ICE would participate (even if to a small extent) in its financing. Mr. Canas accepted the idea in principle.
5. I informed Dr. Naranjo of this, and asked him to contact Mr. Canas and then send us with the research proposal a detailed costing of it, indicating which items would correspond to ICE participation in staff, vehicles and field support. It is my view that ICE's participation should be at least to the full extent of these items.
6. With regards the review of information (para.3 of my terms of reference):
  - (i) I gained a better understanding of switching costs for L/D traffic. Figures were not provided but I left a list of the specific items whose prices I need to have, to cost more accurately L/D links.
  - (ii) Tables will be prepared by the same engineer that prepared the table summarised in table 4.1 of my preliminary draft on the progress report, to improve the process of cost allocation between traffic and subscribers.
  - (iii) A review of allocations of operating and maintenance costs was made at my request by an ICE engineer.

June 13, 1973

(iv) Improved estimates (but not exact figures) of relations between measured and taxable traffic were obtained.

(v) I brought back a more complete list of rural telephones including revenues and operating and maintenance costs, plus information on costs of rural lines.

7. As a result of this visit, I was able to correct some mistakes on my first progress report. The findings of that report will remain unchanged however, partly as a result of the very conservative approach I took in the first place.

8. Partly on the basis of the findings of this visit and partly because my first progress report (not yet issued officially) has been found (justly, I believe) wanting in descriptive clarity, I intend to rewrite it, correcting whatever inaccuracies may be found in the computations and improving in its organization.

cc: Messrs. Vasudevan, Warford, Chaparro, Dolenc.  
cc: for information: Mr. Anderson  
Blue book, files

*RS* Schkolnick: mds

## OFFICE MEMORANDUM

*Miss Manning @ 3/3*  
*Mrs Brown*  
*for info*  
DATE: June 7, 1973  
*O.P. Research*  
*cc O.P. Urban Dev.*

TO: Distribution Below

FROM: Robert A. Sadove *R. Sadove*

SUBJECT: Consultant's Report on Sites and Services

3/b

1. The attached report is the result of a research contract with Messrs. W. Grindley and R. Merrill. The terms of reference centered on:

- (a) a review of information on sites and services programs available from public sources, including the libraries of the UN Center for Housing, Building and Planning, and MIT. From this information, the consultants were to identify major elements in planning, executing, managing and evaluating these programs with a view to developing criteria for evaluating individual project proposals; and
- (b) testing the criteria developed by applying them to an in-depth study of programs in a few selected countries---Chile, Senegal and Zambia were selected.

2. The study began in June 1971, and an interim draft report was submitted in September 1971. Field work began in December 1971, and a draft final report was submitted in November 1972. This was considered not to meet satisfactorily the criticisms levelled against the interim draft report. Discussions with the two authors led to some further amendments. However, reassignment of the authors to other work has removed the possibility of substantial further changes which we feel would be required to warrant wide circulation of the report.

3. Objections to the substance of the report fall into two categories: what material was selected for inclusion and what topics were omitted. A few of the major criticisms are listed below:

- (a) Because the material was culled from public sources and not the result of original research, it often lacks uniformity from country to country to such an extent that it should not have been utilized as a statistically comparable base upon which to draw general conclusions.

June 7, 1973

- (b) In analyzing the data, little attention was given to the impact which differing socio-economic-political influences may have had on the effectiveness of site and services programs.
- (c) A very narrow definition of the site and services concept was adopted by the consultants, limited to the development of residential lots. This restricts the usefulness of the document to the Bank because its approach to such projects is a much broader one of community development. This not only involves provision of community facilities, such as schools and health centers, but also may involve integrating transport, commercial and manufacturing activities.
- (d) The report omits any discussion of subsidization policy as related to such projects, including interest rates and cross subsidization, and the relation to general housing policy including the extent to which higher income residents are presently benefitting from subsidies.
- (e) Also omitted is a discussion of the apportionment of project costs between the municipality and individual purchasers of lots.
- (f) Discussion of management and other operational matters is often weak.
- (f) In terms of style, the presentation is considered poorly organized, repetitive and often didactic in tone.

4. Due to its many weaknesses, the report is being released only for internal Bank circulation. In that way, useful portions of the data will be available for staff members to utilize in a discriminating way until a better document be issued; but the Department does not wish to endorse this document or its conclusions and hypotheses.



5. An operational report on sites and services will be prepared within the Department during 1973, which will draw on information collected by the consultants, but it will also incorporate the experience accumulated within the Department after two years of project work on sites and services in some twenty countries.

*Handwritten:*  
Hans : Sheridan Jackson

HBDunkerley/NFarmer/rm

Distribution:

Messrs. Baum, van der Tak, Rovani (Central Projects)  
Directors, Regional Offices  
Chief Economists, Regional Offices  
Mr. Dean (East Africa)  
Mr. Denning (West Africa)  
Mr. Lari (IAC)  
Messrs. Stevenson, Keare (ECDRB)  
Messrs. Weiss and Ray (Office - V.P. Dev. Policy)  
Mr. I. Sirken (EDI)

Additional copies are available by calling Ext. 5302.



**Battelle**

*Europe  
- Research  
Market Studies*

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Télégramme Battelle-Genève  
Télex 23 472 batel ch

*D.P. Research*

INTERNATIONAL BANK  
FOR RECONSTRUCTION AND DEVELOPMENT  
Mr J.A. SIMMONS  
Tourism Projects Department  
1818 H Street N.W.

WASHINGTON D.C. 20433  
U.S.A.

Tourism Projects Department	
Date Received:	JUN 13 1973
Replied by:	No reply
Date Action Taken:	

votre réf.

notre réf. 442.19/Z 8001/CWGA/mf

Genève le 8 June 1973

Dear Sir,

At the beginning of 1972 we commenced a study of the future opportunities for hotel development in Europe and North Africa, entitled:

"A study of the hotel industry in selected countries and its prospects for development up to 1980".

This study, in which numerous leading hotel companies and organisations participated, has recently been completed, and we are taking the liberty of bringing to your attention the main characteristics of the research program. We are also enclosing a copy of our brochure "Hotels 1970-1980, Europe and North Africa" which describes the scope and contents of the study in more detail.

The study contains a detailed analysis of the current state of the hotel industry in 19 countries, 30 cities and 84 tourist regions, and forecasts have been made up to 1980. All the data has been standardised in order to make possible both national and international comparisons. Computer analysis have been carried out on the accommodation capacity of the cities and regions, covering all the characteristics of 100 000 establishments.

The clientele of these hotels has also been studied in detail, in particular the purpose of the voyage - business or tourism, the country of origin, the length of stay, etc.

It was then possible to calculate rates of profitability for these establishments and for the cities and regions in general.

.../..

1913 JUN 13 AM 10:20

200

44

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Finally, the study gives an in-depth analysis of the structure of the hotel industry in each of the 19 countries: economic background - taxation, government aid, building costs, methods of operation - reservation systems, degree of concentration and integration, leading hotel chains, etc.

On the basis of this information, forecasts of hotel supply and demand have been made for 1975 and 1980, showing inter alia, which cities or regions will have a shortage of capacity, which hotel categories will be most in demand, and the characteristics of their clientele.

The study is available complete in six volumes, but clients have the option of purchasing two, three or four volumes only according to the number of countries that interest them.

We believe that a study of this kind presents numerous advantages for an organisation such as yours, and is fundamental to business decisions and investment policy.

Please, do not hesitate to contact us if you would like to discuss this study personally.

Yours faithfully,

p.p. 

C.W.G. Armstrong  
Tourism and Leisure unit  
Department of Applied Economics

Distribution Below

June 7, 1973

Robert A. Sadove

Consultant's Report on Sites and Services

1. The attached report <sup>May 73</sup> is the result of a research contract with Messrs. W. Grindley and R. Merrill. The terms of reference centered on:

- (a) a review of information on sites and services programs available from public sources, including the libraries of the UN Center for Housing, Building and Planning, and MIT. From this information, the consultants were to identify major elements in planning, executing, managing and evaluating these programs with a view to developing criteria for evaluating individual project proposals; and
- (b) testing the criteria developed by applying them to an in-depth study of programs in a few selected countries---Chile, Senegal and Zambia were selected.

2. The study began in June 1971, and an interim draft report was submitted in September 1971. Field work began in December 1971, and a draft final report was submitted in November 1972. This was considered not to meet satisfactorily the criticisms levelled against the interim draft report. Discussions with the two authors led to some further amendments. However, reassignment of the authors to other work has removed the possibility of substantial further changes which we feel would be required to warrant wide circulation of the report.

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June 7, 1973

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HBDunkerley/NFarmer/rm

Distribution:

Messrs. Baum, van der Tak, Rovani (Central Projects)  
Directors, Regional Offices  
Chief Economists, Regional Offices  
Mr. Dean (East Africa)  
Mr. Denning (West Africa)  
Mr. Lari (LAC)  
Messrs. Stevenson, Keare (ECDRB)  
Messrs. Weiss and Ray (Office - V.P. Dev. Policy)  
Mr. I. Sirken (EDI)

Additional copies are available by calling Ext. 5302.

Ms. Monique Cohen

June 6, 1973

Douglas H. Keare *DK*

Terms of Reference: Mission to Iran

1. During the period June 13 to July 16, you will participate in a special mission to Iran led by Ms. Helen Hughes.

2. You will primarily be concerned with collecting information that relates to the development of cities and small regions in Iran. You will review the research that has been undertaken on urbanization and collect relevant statistical data. This will include general population, employment and other economic data disaggregated to an urban and regional level, as well as other information that provides measures of inter-regional, intra-regional and inter-urban linkages.

3. You will consult with government officials and the World Bank Rural Development Task Force on the possibilities of undertaking an urban and regional study in Iran and discuss possible regions for such a future investigation.

4. While in Iran you will visit Shiraz, Esfahan, Tabriz and other regional centers. Their role as regional centers should be surveyed in the light of their suitability as areas for future study.

5. You will also stop in London for two days prior to arriving in Iran in order to consult with Mr. M. A. Power and Dr. V. Costello in connection with their previous research work on the city and small region in Iran. In Iran you will meet with members of the Institute of Social Sciences and Research and public and private authorities who undertake work in this field.

6. On your return to Washington you will write a Back-to-Office report.

MC:ap

*WLL*

*VP*

Cc. and Cleared with: R. Gulhati, Ms. H. Hughes, Mr. G. De Lusignan

Cc.: Mr. Keare



Mr. Robert McPheeters

June 1, 1973

K. M. Vijayalakshmi *KM*

E.A.C.'s Trade Data and Tanzania's Public Sector Accounts

1. I have completed the special assignment regarding East African Communities trade data. The purpose of the study is to analyse the effects of the Union of Kenya, Tanzania, and Uganda into a Common Market, on the trade flows within the E.A.C. countries, and on the industrialization policy pursued. At present, Mr. Bottelier is writing a report on this subject. I was asked to prepare the tables in the Statistical Annex to the report, analysing the flow of trade between the E.A.C. countries for the period 1967-72, to review the Statistical Annex, and to make a few analytical comments.

2. My other assignment is concerned with Tanzania's public sector accounts. The purpose of this study is to investigate a possible cause for the low growth rate of Tanzania, namely the underestimation of the government sector's accounts and hence the underestimation of the GNP. The possible overestimation of the public sector accounts, and GNP of other East African countries will also be considered in this exercise. In the first meeting with myself, Mr. Please, and Mrs. Lindsay Smith the general nature of the problem and the possible sources of data were discussed. It was also agreed that we should meet once a week or so to discuss the progress of the study, and the new obstacles that may arise. Subsequently Mrs. Lindsay Smith and I have selected a few East African countries with which the research should start. The countries are selected mainly from the point of data availability. The countries are Tanzania, Kenya, Uganda, Malawi, Zambia, Ethiopia, Malagasy Republic, Mauritius and Sudan. To start with, the share of public sector into the national product will be determined then the methodology of estimating the national accounts in these countries will be looked into. Mr. Lee's research on Tanzania, and Mr. Kundu's on Zambia and Uganda will be looked into for possible clues. Mrs. Lindsay Smith and I will be meeting Mr. Please on June 4 to review the progress so far.

cc: Mr. Rose  
Mr. Lee

**WORLD HEALTH  
ORGANIZATION**



**ORGANISATION MONDIALE  
DE LA SANTÉ**

1211 GENEVA 27 - SWITZERLAND  
Telegr.: UNISANTE-Geneva

Tél. 34 60 61 Téléx. 22335

1211 GENÈVE 27 - SUISSE  
Télégr.: UNISANTÉ-Genève

1 June 1973

In reply please refer to: W2/372/2/EURO  
Prière de rappeler la référence:

Dear Jerry,

... As promised I am enclosing two copies of the report on the  
informal meeting held in WHO headquarters on 28 May 1973 to discuss  
the proposed research project in Kosovo, Yugoslavia.

... I am also enclosing a photocopy of the document promised by  
Dr D. Barua of the Bacterial Diseases Unit.

I hope that you have had a good journey back to Washington and  
that we will be hearing shortly as to the future of the Kosovo  
project.

Best personal regards,

Sincerely,

*Paul*

P. Bierstein  
Consultant  
Pre-Investment Planning Unit  
Division of Environmental Health

Mr J. Warford  
Public Utilities Department  
International Bank for Reconstruction and  
Development  
1818 H Street, N.W.  
Washington D.C. 20433  
United States of America

... ENCLS.

*O.P. Research*

*K*

Date Received: *June 11/73*  
Assigned to: *Warford*  
Action Taken: *No reply*  
By: *MISC-3-35*

ORGANISATION MONDIALE  
DE LA SANTÉ

1211 GENEVE 27 - SUISSE  
Télex: UNISANTÉ-Geneve



Tel. 34 60 61 Télex. 22332

WORLD HEALTH  
ORGANIZATION

1211 GENEVA 27 - SWITZERLAND  
Telex: UNISANTÉ-Geneva

1 June 1973

In reply please refer to: WS/375/2/EURO  
Précis de réponse la référence:

Date Received: June 11/73

Assigned to: Warford

Action Taken: Noted

By: MISC - 3-32

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I am also enclosing a photocopy of the document promised by Dr D. Burns of the Bacterial Diseases Unit. By I hope that you have had a good journey back to Washington and that we will be hearing shortly as to the future of the Kosovo project.

Best personal regards,

Sincerely,

F. Bierstein  
Consultant  
Pre-Investment Planning Unit  
Division of Environmental Health

Mr. J. Warford  
Public Utilities Department  
International Bank for Reconstruction and  
Development  
1818 H Street, N.W.  
Washington D.C. 20433  
United States of America

1973 JUN 10 10:05

ENCLOS.

June 1, 1973

Mr. K. Shaw  
Administrative Director  
Overseas Consultancy Services  
The Electricity Council  
30, Millbank  
London, SW1P 4RD  
England, U.K.

Dear Mr. Shaw,

Standards of Urban Electricity Division  
Research Project

No doubt you will have seen a copy of the letter to myself from Mr. P.M. Prior, Deputy Chief Engineer, South Wales Electricity Board. I briefly acknowledged the letter on May 16, 1973 and must apologize for not sending you a copy.

I would acknowledge that it is Stage I(a), involving the writing of the "State of the Art" paper only, which is the subject of seeking from you a proposal at this stage. The Terms of Reference for the work remain as those attached to my letter to you of March 29, except that I would like to add to the "Background" the perspective of the difference between dealing with large as compared with small towns.

Bearing in mind the approximate time expected to be devoted by your two-man team, as given in the attachment to my letter of March 29, 1973, could you please send to me a formal proposal for taking on this work including:

1. A total cost, plus an approximate breakdown for each item numbers 2 through 6 of the Terms of Reference.
2. When your team will be able to start work.
3. Whether your team will be able to carry out the items in the Terms of Reference without breaks in between; if not, when you would expect to complete the work.

I have no special comments on the letter from Mr. Prior to myself of May 16, 1973. We are basically dealing with those parts of the system at (say) 11 KV and below. The effects of devices and designs of those parts of the system above these voltages would be treated as exogenous inputs into the study. I have a general comment, which is to point out the importance of gathering together everything possible on the benefits side,

Mr. K. Shaw

- 2 -

June 1, 1973

i.e. the economic cost of kWh not supplied by adopting various standards of supply. It did occur to me that the use of one of the economists at the Council (Mr. Boley?) for a very short period would be extremely beneficial.

To save time I am copying this letter to Mr. Prior and look forward to your replying at an early date. My target is to commence the study sometime in mid-July, 1973.


Sincerely yours,

T. W. Berrie  
Power Economics Advisor  
Public Utilities Department

cc to Mr. P.M. Prior  
Deputy Chief Engineer  
South Wales Electricity Board  
St. Mellons  
Cardiff CF3 9XW  
Wales

cc: Messrs: Stern, Ray, Dunkerley, van Gent, Willoughby, Rovani,  
Howell, Friedmann, Berrie

Files

 TWBerrie: jr

Mr. Ernest Stern

May 29, 1973

Wouter Tims *WT*Research Proposal on Cocoa Study

1. We submitted a research proposal on cocoa requesting financial support to commission two professors from Stanford Food Research Institute (and perhaps one from Fletcher School) to assist us with our study of comparative advantage. Their help would be on methodology and also on its application to the major West African cocoa-producing countries using available statistical material. Mr. Kuczynski reported to you on May 23 that on balance the Review Subcommittee is inclined to support our proposal, provided that (i) the relationship between the two parts of the study is made more explicit, and (ii) the nature of the methodological innovation is clarified. Also, he raised the question "whether this sort of research, which is basically done by our own staff with some input of consultants, ought to be financed by the Research Budget rather than the proposing Department itself." I wish to offer the following comments on the points made.
2. On the relationship between the two parts of the study, Part I follows the format of our commodity papers designed to provide the market foundation for projects. This was necessary to insure that the presentation of a cocoa project to the Board is not unduly delayed. Part II will constitute our main response to the recommendations made in the Primary Exporters Study. It will deal basically with cost analyses and will attempt to identify comparative advantage for major cocoa producing countries.
3. Regarding the suggested methodological innovation we are primarily interested in testing existing methods rather than inventing new ones. This reflects both data limitations as well as the time constraint on account of the deadline. The choice of consultants has been dictated precisely for these reasons; they have developed the techniques as well as most of the data.
4. Several possible methodological approaches are envisaged and we intend to discuss these at a seminar in late June. The approaches will include (a) the Bruno technique which involves at least a partitioning of an input-output table for each country in the study; (b) rank calculated economic rates of return on cocoa and alternative crops; and (c) the concept of domestic resource cost. Each approach has its own difficulties and shortcomings. Furthermore, beyond comparing alternative investment opportunities to which the above techniques can be applied for each country, there still remain the difficult questions of how to compare the lists of alternatives between the countries in the study, and how to account for regional specialisation in a country.

May 29, 1973

5. Covering three or four countries in the study might be too ambitious within the time constraint and the small budget proposed. The question of the number of countries to be included in the study cannot be answered until we have discussed the matter in detail with the proposed consultants, and the consultants' expertise cannot be tapped unless the research budget is forthcoming.

6. The scope of Part II goes beyond cocoa itself as it is necessary to study alternative investment opportunities. This kind of study has never been undertaken in our Department before; it is therefore not correct to think of it as something "basically done by our own staff" at this juncture. It cannot be financed from the Departmental budget because we were not in a position to estimate our requirements, or even the scope of the study, when the budget was prepared.

7. Discussions last week with Mr. Balassa and Professor Strycker of Fletcher opened the way to a close collaboration between the analysts on the side of agriculture and on the industrial side; the latter will be covered by a study to be undertaken by the DRC, following the same methodology, using basically the same data sets and the same source of consulting services as we have proposed. This fortunate circumstance makes it all the more attractive to undertake the research proposed by us.

cc: Messrs. Hayes, Singh, Yeung  
Kuczynski, Balassa

*SY*  
PYeung/SSingh/Wfims:jl

Research Committee

May 29, 1973

Hollis B. Chenery Signed Hollis B. Chenery

Bank Policy on Support of Outside Research Proposals

Our review of the research programs in major areas (Ray/Stern memorandum of May 21) has shown the need to actively solicit outside research proposals in certain areas. We have so far accepted five such projects and are considering one currently. In order to take advantage of research capabilities outside the Bank, we need to have a clearer policy on submission and review for outside research proposals.

The attached draft Policy Statement amplifies the criteria suggested in paras. 26-29 of the Ray/Stern review. After Committee consideration and discussion, I will circulate a statement for guidance within the Bank and also make it available to institutions that may wish to submit proposals to us.

Attachment

HBChenery:tk



Mr. Dragoslav Avramovic, Office - V.P., Lat. Am.  
Mrs. Helen Hughes, Development Economics  
Bela Balassa, DRC *M*

May 29, 1973

Comparative Study of Export Production

1. The purpose of this note is to provide a basis for our discussions, to be held on June 1, 10 AM in Mrs. Hughes' office. It briefly considers the objectives of the research project, alternative approaches to the problem, personnel needs, timing, and cooperation with AID.

Objectives

2. The proposed research project would investigate the experience of selected developing countries with export promotion policies. It would examine the policies applied, investigate their effects on economic growth, employment, and the balance of payments, and analyze their economic costs. The findings of the project should enable the Bank to clarify policy issues as regards export promotion in developing countries and to make recommendations to countries which presently follow or contemplate applying such policies.

Approach

3. There are basically three approaches that may be used to analyze the effects of export promotion policies:

- (A) a macro-approach, examining the effects of promotion measures on exports in aggregate terms and analyzing the impact of export expansion on the national economy;
- (B) an interindustry approach, examining the extent of promotion measures across industries and relating the extent of promotion to export performance in an inter-industry framework;
- (C) in-depth industry studies, examining in selected industries the availability of incentives and the reaction of firms to these incentives.

4. While the three approaches complement each other, they are also competitive in the sense that they use scarce resources -- time and money. Although (A) can be applied in a simplified form with relatively small expenditure, this is not so for (B) and (C). (B) would necessitate relating incentives to value added (or profit) and examining changes over time as well as relative incentives to export and import substitution. In turn, (C) would involve considerable field work as well as cross-checking of the responses received.

in countries where export incentives are provided more-or-less automatically, I would favor a combination of (A) and (B). One may also consider applying different approaches in different countries although this would reduce the generality of the results.

#### Personnel Needs

6. In carrying out the research project, one may utilize Bank staff, consultants, and developing country institutes. Mr. Avramovic has expressed a preference for relying largely on Bank staff while AID plans to use a combination of consultants and developing country institutions. I favor having a strong staff component in the study but suggests also using consultants and developing country institutes in the event that cooperation with AID does not materialize. In turn, cooperation with AID would permit limiting our involvement largely to Bank staff.

#### Timing

7. Various considerations suggest that the project could not be implemented before FY 75. Firstly, our Development Strategy project presently under completion will offer some tentative answers to several of the questions raised in connection with export promotion schemes. Secondly, in FY 74 existing obligations fully take up the time of DRC staff who have an expertise in the area to be investigated. Thirdly, it will take time to negotiate a cooperative arrangement with AID. At the same time, such an arrangement would reduce the costs of research to Bank and/or would permit increasing the number of countries to be studied.

cc: Messrs. Caus  
Duloy  
Gulhati

BBelassa/ta



INTERNATIONAL DEVELOPMENT RESEARCH CENTRE  
CENTRE DE RECHERCHES POUR LE DÉVELOPPEMENT INTERNATIONAL

P.O. Box 8500  
Ottawa, Canada  
K1G 3H9  
Cable: RECENTRE

May 27, 1973

Dr. Shlomo Reutlinger  
Chief, Rural Development Division  
Development Economics Department  
IBRD  
1818 H Street, N.W.  
Washington, D.C. 20433  
U.S.A.

Dear Dr. Reutlinger:

Thank you for your interesting letter of 15 May, and for inviting my participation in the special working group on nutrition research. I and my colleagues will be happy to assist the activities of the working group as far as our somewhat limited facilities permit.

In the meantime, I shall be grateful if you will kindly clarify one or two points which I do not fully understand.

In the first place, the proposed terms of reference seem to overlap significantly with those of the UN Protein Advisory Group. You state that "This working group will be administered for us through the Protein Advisory Group of the U.N.", but you do not state specifically that it will be in fact a PAG Subcommittee. May I say that I heartily welcome the involvement of IBRD in the PAG's activities but before being able to comment upon the terms of reference it would be helpful to know the precise relation between PAG and the proposed working group.

On page 3 under "Procedure and Scheduling" there is a suggestion that the Nutrition Research Working Group will exist for a comparatively short period and that its members assigned to drafting will complete their work within a four to six week period. I wonder whether, without a great deal of preparation and background study, it is possible in a comparatively short period of time, to define in detail the projects which should receive highest priority in alleviating nutritional distress in the developing world. Will the proposed



report be submitted to the PAG for its members consideration and comment? Since, probably, a number of proposed projects might well be location specific, will they be referred to the Governments and/or scientists of the countries to which they apply?

I trust you will not consider it unduly tiresome of me to raise these questions, I do so purely to obtain a greater clarification of the probable mode of operation of your most interesting proposal.

Yours very truly

  
for J.H. Hulse  
Program Director  
Agriculture, Food and Nutrition Sciences



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1818 H Street, N.W. Washington, D. C. 20433, U.S.A.  
Area Code 202 - Telephone: Executive 41500 - Cable Address: INTBASRAD

D P Research

Yellow

May 25, 1973

Mr. Eduardo Amadeo  
Facultad de Ciencias  
Instituto de Estudios  
Economicos  
Universidad Catolica  
Argentina  
Reconquista 269  
Buenos Aires, Argentina

Dear Eduardo:

Thank you for your letter and for your proposal for research on the role of the financial agencies in the promotion of local science and technology. I have read it carefully and have circulated it to a number of Bank staff who are interested and expert in the area of financial institutions.

Proposals for Bank-funded research must be approved by a committee in which Bank operational staff is strongly represented. These staff have extensive experience with the daily operations of development banks, and look to the research program to provide them with new insights and ideas for policy and practice. Accordingly, the presentation of your proposal should include a clear statement of the meaning of technical self-reliance and the role that you hypothesize that development banks could play in achieving it. I am attaching an excerpt from an internal memo commenting on your proposal which will show you the audience to which this presentation should be addressed.

It must furthermore be clear to this committee that the proposed research would be likely to produce conclusions that are not already well known to our staff and to the staff of other institutions that deal on a daily basis with national development banks. It is no secret, for example, that most development banks do not have strong engineering staff and confine themselves, at best, to strictly financial appraisals of proposed projects, with some examination of the soundness of the proposed technology. I imagine that Argentina is no exception to this rule.

There are several obstacles to making development banks into an instrument of technology policy. First is the strengthening of staff concerned with technical - and, indeed, financial - appraisal in general. Second is a change in attitude toward the

financing of risky ventures. A financial institution run along commercial lines will naturally seek out the safest technology, especially if national policies subsidise the importation of foreign capital equipment. It is not clear to me what your proposed research will add to this conclusion. A project using local or unpackaged technology will inevitably be considered riskier than one using a tried foreign turnkey plant - but this is not the only example of a venture which many development bankers would consider too risky. What are the special problems of financing a venture which uses local sources of technology?

Also, the requirement that a financial institution be involved in choices of technology puts real demands on the staff of the bank, which must in essence second guess the detailed choices of technology made by the client in such a way that the businessman will respect the technical opinion of the Bank staff and seek to benefit from their advice. Is such a cadre of experience personnel really available to Latin American banks? You will need to consider this in any new procedures you propose.

I would strongly urge you to consult with officials of local banks before presenting a revised proposal, so that your prospectus will carry a ring of authority and familiarity with the operation of such institutions.

I think you will find among the World Bank staff varying measures of agreement to the general proposition that the achievement of technical self-reliance is an important goal of development. The problem is, how is this to be achieved? It is not clear to me that the major problem which keeps national development banks from playing a major role in the development of technical self-reliance is the absence of project evaluation methodology and procedure. More likely, it has to do with more fundamental policies concerning the role of the development bank in the private sector, its attitude toward risk capital, and, of course, the more general national policies towards the importation of capital equipment and technology.

I doubt very much that you should plan to get into the working of international financial institutions in this project. This is not to say that our project evaluation procedures, or those of other international institutions, are ideal, but only that I doubt that this field study would make much of a contribution. In principle, we are careful to consider alternative technological approaches of economic techniques intended to introduce employment

May 25, 1973

considerations into project analysis. The problem here is not the absence of a suitable methodology but the way in which the decisions to undertake projects are actually made under real conditions. In practice, the major device of the Bank for choice of technology is to insist on international competitive bidding in its projects. This serves as an important check on the tendency of packagers of turnkey projects to charge high mark-ups on the products provided by their sub-contractors. However, it does not effect the kind of savings that might be achieved by unpackaging. This has more to do with the subtleties of Bank practice than with policies and methodology, and is a problem to which I devote some time.


As you expected, then, this first draft requires a substantial amount of revision. Its major problem is that it does not show a feel for the actual operations of a development bank. A few interviews with bank officials might help here.

I appreciate that this is a lot of trouble to ask for what must seem to be a modest research grant. Still, I feel that it will result in a substantial improvement in the research and is a necessary preliminary to a project of any size.

Will you be in Mexico City for the AAAS/CONCYT meeting? I look forward very much to seeing you.

With best regards,

Sincerely yours,



Charles Weiss, Jr.  
Science and Technology Advisor

Att.



a) I have some difficulty in understanding from the proposal what Mr. Amadeo means by "technological self-reliance." Three possible meanings suggest themselves: (i) that he is concerned about the capital/labor mix of technologies chosen for projects; (ii) that he believes that technological innovations developed in Argentina (and other developing nations) are not receiving adequate financing; and (iii) that he believes that existing sources of long-term finance bias investment decisions in favor of foreign equipment, as against local equipment. My first suggestion is then that Mr. Amadeo define the subject matter of the proposed study further;

b) if Mr. Amadeo's concern is with the first possible meaning of "technological self-reliance" then I would suggest that the scope of the study be broadened to cover not only the possible role of international and national development institutions in investment decisions, but the role of government policies as well; policies in such areas as tariffs, income tax and other investment benefits, interest rate and the cost of capital and labor legislation suggest themselves. If he wishes to focus on the second possible meaning, then a discussion of the sources of risk-capital would seem to be in order: markets for equity capital as well as the role of national and international development banks should be explored. If his concern is that sources of finance bias decisions in favor of foreign, rather than local equipment, the focus, I suggest, should be on policies to develop domestic sources of long-term finance (e.g. interest rate policies) and the role that domestic institutions play in long-term capital

formation. My second comment, in summary, is that investment decisions as between alternative technologies are probably affected to a small extent by financial institutions in the process of project appraisal: decisions are much more likely to be affected by government policies, not the least important of which are policies on long-term capital formation.

formation. My second comment, in summary, is that investment decisions as between alternative technologies are probably affected to a small extent by financial institutions in the process of project appraisal: decisions are much more likely to be affected by government policies, not the least important of which are policies on long-term capital formation.

JCKendall:yir

V.P. Kesarah  
CC R.S. ES  
CC R.S. VI

Mr. Anandarup Ray, DPS

May 22, 1973

Attila Karaosmanoglu, EMENA

Research Proposal Review

1. In response to your request of May 4, a Review Panel consisting of Messrs. Acharya, Lluch, Squire and myself met on May 17 to review the following research projects:

- I. Pricing and Investment in Electricity Systems;
- II. Problems and Issues in Village Electrification;
- III. Student Loan Schemes and Other Forms of Cost Reallocation: A System Approach to Education Financing;
- IV. The Benefits of Schooling for Workers.

The Panel had the opportunity to discuss the proposals with Messrs. Berrie and Churchill on the public utility projects and Messrs. Hawkins, Hultin, Jallade and Simmons on the education projects.

The Coordination Issue

2. On both the education research projects up for review, the Panel noted the lack of necessary intra-Bank coordination. Though the Student Loan Scheme ... project focuses on the impact of education expenditure/finance on the distribution of income, it had not been discussed with either the Income Distribution Division of the DRC or Public and Private Finance Division of DED, both of which might have been expected to comment usefully and perhaps integrate the research with their own proposals. Similarly, the Benefits of Schooling project, sponsored by the Population and Human Resources Division of DED, had not been coordinated with the Education Projects Department. The Panel felt that the procedures for coordinating research proposals need to be clarified and strengthened, both with regard to subject matter and data demands on research-intensive countries (e.g., Brazil).

I. Pricing and Investment in Electricity Systems

3. In view of the Bank's heavy involvement in lending for public utilities, the Panel endorsed the continuing project of examining and modifying electricity pricing and appraisal principles in the theoretical literature to improve their applicability in developing countries. The projected "Manual", for use by Bank staff, borrowers and consultants, was seen as the appropriate and potentially valuable end-product for the ongoing methodological studies. The research proposal views the country case-studies component as an important complement to the methodological work. Two have been completed, a

third launched and a fourth is up for funding in the proposal. While endorsing the general need for case-studies to serve as testing ground for the methodology, the Panel felt that the proposal was unclear as to what issues remained unresolved from earlier case studies, and in what way the fourth case study is being designed to fill the gaps.

## II. Problems and Issues in Village Electrification

4. The social valuation of rural electrification schemes is of relevance for the Bank lending program. The project is a potentially important contribution in that area. Its role in building research capability in El Salvador is also to be commended. However, a proper evaluation of the research progress requires information on the over-all work program linking (a) the research output contributed by the counterpart institute in El Salvador; (b) the data gathering efforts; (c) the methodology put forward by researchers at the Bank. On (a), it is to be noted that the output of the two seminars at El Salvador has not been articulated into an organized set of papers with a common introduction and directions for further work. Another problem is the apparent lack of interaction between (a) and (c). It is not clear that (a) can be labeled "descriptive", in sharp distinction with (c). Some members of the Panel felt that the claim for the consumers' surplus approach in (c) has not as yet been substantiated, and that the model specification leading to measurement of price responses is inadequate.

## III. Student Loan Schemes and Other Forms of Cost Reallocation: A System Approach to Education Financing

5. The title is somewhat misleading. Phase II of the project, under review, consists of two sub-projects on education finance, one concerned with the impact of education expenditure/finance on income distribution in Brazil and the other with the possibilities and limitations of privately financed education, with Mexico as a case-study. For the first sub-project, the proposed methodology was felt to be weak on a number of points:

- (a) the apparent assumption that the lifetime earnings profile of an individual is fully explained by his past education, seems unduly bold, particularly in view of the other education project under review which hypothesizes a weak relationship between education and earnings;
- (b) the ticklish issue of choice of an appropriate discount rate;
- (c) the use of age, earnings, and tax information at one point in time to proxy for historical time-streams.

Despite these weaknesses the Panel felt that the subject was an important one, and may be suitable for funding if the methodology could be amplified and refined, perhaps with the benefit of coordination with other concerned groups in the Bank. Prior to a resubmission, the question of whether the Brazilian data is likely to be available, will have to be answered.

6. The Panel felt that the methodology for the other sub-project had been insufficiently defined. Doubts were raised about the generalizability of study of privately financed education in Mexico. The expected relevance of the research results to educational policies of the Bank or the country concerned is not clearly articulated. The Panel understood that summaries of the operational significance of research results from earlier portions of the larger research project under preparation. These should be appended to the proposal to aid evaluation of the research project.

#### IV. The Benefits of Schooling for Workers

7. The research proposes to extend and improve upon an earlier econometric investigation of the relationship between education and earnings in selected occupations in Tunisia. The Panel was impressed by the thoroughness of the groundwork in the research proposal. However despite the rather optimistic claims about the policy relevance of the study, the Panel felt that the problems of simultaneity, measurement of variables and attribution of causality are likely to seriously impair the interpretation of results obtained from a single-equation framework. Since data on two out of the three sample frames have already been collected, the Panel recommends that the research proposal be reformulated indicating the hypotheses which can be tested using the existing data, and at what cost. The disaggregation of the project into two stages, the first based on existing data, and the second on data from the third sample frame (to be funded later) would offer the Research Committee a pay-as-you-go approach to the proposal.

A.K.  
SNAcharya:CPLLuch:AKaraosmanoglu:mb

cc: (and cleared with)  
Messrs. Acharya  
Lluch  
Squire

May 22, 1973

Mr. Bertrand M. Renaud  
Associate Professor of Economics  
Economic Research Center  
University of Hawaii  
Room 401, 1110 University Avenue  
Honolulu, Hawaii 96814

Dear Mr. Renaud:

Thank you for your recent letter and also for the reprint of your Swedish Journal of Economics article. We were very pleased to learn of your research experience in Korean economic development and about the Center for Korean Studies.

As Louis Rose may have mentioned to you, efforts to carry forward our research project on urban land policies and land use control measures is somewhat in abeyance at present, while we all finish other commitments. A colleague who will be working on these issues is now involved in assessing urban growth and change in Ecuador, and I am writing on rural employment policies in the Ivory Coast. It will be well into the summer, I think, before we can return to land use issues per se.

Beginning about the middle of July we plan to turn to a comparative analysis of land prices in two African cities (Abidjan and Kinshasa) to see the extent to which land rent gradients differ according to the (very different) density and settlement patterns observed in each city. Then, building on results of this analysis we will continue with the research involving Korea in comparison with experiences in selected European countries. One of the first steps will be a detailed statement of what the proposed research will involve, to be sent to our Research Committee. This should be completed toward the middle of August and I will send you a copy as soon as it is ready. During August I will also revise and complete an initial study of the economics of betterment value, as it applies in a development context to Singapore, Hong Kong, Korea and Taiwan. This I will also send along to you.

Plans now are for the field portions of the research to take me and probably a consultant to Korea sometime in the fall, at which time I would very much look forward to seeing you and discussing our project and the work of our Urban and Regional Economics Division in general. To this end, if you have time before you leave to drop me a line giving your address and possibly your telephone number while in Korea, I would be very grateful.

Mr. Bertrand M. Renaud

- 2 -

May 22, 1973

Thank you again for your letter. I am looking forward to keeping in close touch.

Yours sincerely,

Orville F. Grimes, Jr.  
Urban and Regional Economics Division  
Development Economics Department

ofj

Mr. S.M. Tolbert

May 22, 1973

T. Iizuka

RESEARCH: Market Studies

1. As part of this department's research efforts, please find attached a draft report entitled "Assessment of Japanese Tourist Trends, 1973". Some of this material could be used in appraising our projects in Korea, Indonesia and Fiji. It is also possible that the draft will be incorporated as an Annex to the Korean appraisal report.

2. Since Korea will heavily depend on Japan for its tourist flows, for your information, please find attached an additional draft report on the present and future demands for foreign tourism in Korea as well as the Kyongju area. The supporting tables for this report will be ready shortly.



T.Iizuka:ls  
cc: Messrs. Glaessner and Simmons



OP Research

Dr. R.N. Kaushik  
Directorate of Economics and Statistics  
Ministry of Agriculture  
Krishibhavan  
New Delhi  
India.

May 25, 1973.

Dear Dr. Kaushik,

I am writing to say that there is no chance now of obtaining our Research Committee's approval of a third study area in agricultural mechanization before next September. This is probably unwelcome news. However, it can have little immediate effect on our plans, because the practicality of initiating a third study for this kharif season would seem to have faded some weeks ago anyway.

Let me review what has happened here. I returned to Washington on March 5 and a broad proposal for a third study area was put forward by the end of March. I was expecting to receive by March 31 the IIM's Interim Report which had been postponed from November 1972. This report was considered vital in preparing a detailed case for a third area. Well, time slipped by without any response from the Committee until last week when I was given a choice of preparing a detailed case for presentation in either June or September. I decided that it would be better to wait until September. If I had opted for June, the earliest decision from the Committee, under the best of circumstances, would be late in June. This would simply be too late to get a sensible program started this kharif. Furthermore, I received word from the IIM last week that their November-cum-March report would not be ready now until the end of June. All things considered, it seems much more sensible to aim for such a study next year.

I am sorry for the delays which have contributed to this situation and for the uncertainty that still remains about Bank involvement in an extension of the study, i.e. there is still no certainty that financial support will be forthcoming from this end. I do not know whether this affects your own plans. It would still make sense, in my view, to delay the start of any third area study until we have some firm lessons from the current studies in Punjab and Gujarat.

Dr. R.N. Kaushik

May 25, 1973.

I sent some spare xerox copies of the PAU's Report to Dean Kalon, but forgot to ask him to send you one. Perhaps you could get in touch with him.

There are no plans as yet for me to visit India in the next few months, so I shall keep in touch with you by mail on all matters affecting our study.

Yours sincerely,



Paul Duane  
Central Projects Staff

## OFFICE MEMORANDUM

TO: Mr. Ernest Stern

DATE: May 25, 1973

FROM: Dragoslav Avramovic *Avr*SUBJECT: Review Panel of the Research Committee -- Prototype Models for  
Country Analysis

1. A Review Panel consisting of Messrs. Meguid, Yenal and myself met on May 16 to review the DRC/EAP proposal on the above. Mr. Dubey had communicated his views prior to the meeting. Messrs. Duloy, Tims and Carter were also present.
2. While expressing its agreement with the overall objective of the proposal -- to develop operationally useful country models which would incorporate the employment and income distribution issues in addition to growth, investment, savings, input-output, and balance of payments variables -- the Panel wondered whether it was not necessary to undertake first an in-house study (or studies) aimed at stock-taking and more precise formulation of the proposal. The sponsors replied that the project was envisaged as a joint staff-outside consultants undertaking and that it would very much build on the experience already acquired, in the Bank and elsewhere. A substantial input of Bank staff time was contemplated. At the same time, it was considered essential to obtain timely cooperation of outside experts (e.g., Mr. Lance Taylor, Miss Irma Adelman) who have done important work in this area.
3. Question was also raised concerning the nature of the project: was it also aimed at developing short-cut methods for generating shadow prices, since this issue was in the centre of the DRC past work and is directly related to the problems of income distribution and employment which are the key issue in the proposed research? It was stated that the development of shadow prices was not intended and that the past work had not shown much promise in this area.
4. The members of the Panel emphasized the need to assure a continuing contact with, and cooperation of, the economic staff in the Regions, since they would be the users of the results of the research, and also, some may have developed ideas of what can and may usefully be done to widen the formal framework of country economic analyses.

cc: Messrs. Dubey  
Meguid  
Yenal  
Duloy  
Tims  
Carter

*Q.P. Research*

The Research Committee

May 23, 1973

Parvez <sup>P14</sup> Hasan and Douglas Keare *DKK*

Proposed Research on Urban and Regional Subsystems in Malaysia

The proposed research on urban and regional subsystems in Malaysia is recommended to the committee for approval on the basis of the following understanding.

1. Mr. Keare's Division -- in consultation with the area department -- will now prepare a detailed statement (about 8 to 10 pages): (a) identifying four or more specific regions for study, explaining the selection criteria used, (b) providing an urban/rural profile of the regions, outlining the regions' primary economic and social characteristics, (c) defining the approach of the study, and (d) indicating the key hypotheses that may be tested by the research.

2. The proposal should be agreed to by the area department and then submitted to the Economic Planning Unit in Malaysia for their comments and approval before field work commences.

In view of the special characteristics of Malaysia, the study will concentrate principally on analyzing predominantly rural regions most representative of future economic (and urban) development in West Malaysia. The regions selected for study, therefore, will include the various agricultural land development schemes, since the opening of new land will become an increasingly important economic activity in the regional areas. However, the research should not be oriented to an analysis of the region's agricultural activity per se, but should concentrate on the linkages between the towns and the regions arising out of the agricultural activity, exploring such wide ranging questions as

- What type of secondary job creation is generated?
- What is the impact of increased purchasing power resulting from agricultural land development?
- What type and size of industries are viable within the region?
- What are the key determinants (and constraints) to urban growth in the region and what implications does this have for government policy?
- What determines racial income balance and employment patterns in a developing region and what is the likely pattern given current government policies?

cc: Messrs. Stevenson/Gulhati/English (DED)  
Ahluwalia (DRC)  
Swayze (E. Asia & Pacific)

May 23, 1973

Mr. Victor L. Urquidi  
President  
El Colegio de Mexico  
Guanajuato 125  
Mexico 7, D.F.

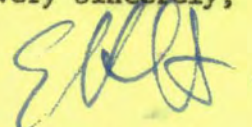
Dear Victor:

Thank you very much for your letter of April 30 and for the two copies of the draft "Studies on Employment in the Mexican Housing Industry". I am reading this with considerable interest.

I am sure that you must be very pleased to have got this study to the point where the results can now be issued and, as a founder member of the steering committee, I would like to express my thanks and satisfaction for all the work that you have put into this exercise. When you began the study I do not think that any of us realized how important the subject of employment was about to become in the development field. We all now recognize the need for many more micro studies of this kind which will throw light on the employment-creating potential of particular sectors.

With best wishes.

Yours very sincerely,



E. K. Hawkins  
Senior Adviser  
Development Economics Department

EKHawkins:ga h

Mr. G. B. H. Renger, Chief, LCPDF

May 22, 1973

John C. Kendall, LCPDF

ARGENTINA - Lic. Eduardo Amadeo's Proposal to Study the Technological Effects of Sources of External Financing to the Firm

1. We have been asked to comment on an undated letter written by Mr. Eduardo Amadeo to Charles Weiss, enclosing the outline of a research project which the former proposes to undertake in Argentina. It is proposed that a nine-month study be undertaken, at an approximate cost of \$25,000, to determine what effect institutions which finance industrial projects have on the choice of technologies used in investment projects. Mr. Amadeo singles out the possible role of international financial institutions and state (development?) banks in the decision-making process, and states that his main concern is for "the need for more technological self-reliance in developing countries."

2. I have two main comments on the proposal:

a) I have some difficulty in understanding from the proposal what Mr. Amadeo means by "technological self-reliance." Three possible meanings suggest themselves: (i) that he is concerned about the capital/labor mix of technologies chosen for projects; (ii) that he believes that technological innovations developed in Argentina (and other developing nations) are not receiving adequate financing; and (iii) that he believes that existing sources of long-term finance bias investment decisions in favor of foreign equipment, as against local equipment. My first suggestion is then that Mr. Amadeo define the subject matter of the proposed study further;

b) if Mr. Amadeo's concern is with the first possible meaning of "technological self-reliance" then I would suggest that the scope of the study be broadened to cover not only the possible role of international and national development institutions in investment decisions, but the role of government policies as well; policies in such areas as tariffs, income tax and other investment benefits, interest rate and the cost of capital and labor legislation suggest themselves. If he wishes to focus on the second possible meaning, then a discussion of the sources of risk-capital would seem to be in order: markets for equity capital as well as the role of national and international development banks should be explored. If his concern is that sources of finance bias decisions in favor of foreign, rather than local equipment, the focus, I suggest, should be on policies to develop domestic sources of long-term finance (e.g. interest rate policies) and the role that domestic institutions play in long-term capital

May 22, 1973

ASSESSMENT OF JAPANESE TOURIST TRENDS, 1973

1. The mission visited Tokyo for ten days to update the Bank's report of May 18, 1972 and to study present and future Japanese travel patterns, both at home and abroad. The mission discussed the recent expansion in overseas travel by Japanese and its prospects with Japanese authorities, including the national carriers, as well as tour operators and travel agents. Some of the detailed data for 1972 were not as yet ready; however, the mission obtained useful information and data from the largest tour operators in Japan. Based on available information and data, the purpose of this report is to evaluate the future growth of Japanese travel abroad, especially focusing on Japanese travel to Korea and Indonesia where the Bank expects to finance tourism projects in the near future.

2. The relevant data and tables are attached to this report.

Background

3. As indicated in the two previous Bank reports of August 9, 1971 and May 18, 1972, the number of Japanese traveling abroad has been increasing at a very fast pace, particularly those going abroad on vacation rather than business trips. The number of Japanese who traveled abroad increased by 42% on an annual average over the period of 1968-72, reaching 1,392,000 in 1972, excluding those going to Okinawa. This trend is likely to continue for the next few years, unless the Japanese economy suffers a depression. Assuming that this upward trend will continue for the next few years, the number of Japanese traveling abroad is expected to be about two million in 1973 and four million in 1975.

4. There are a number of reasons for this marked growth in overseas traffic by Japanese. The most obvious reasons are:

- (a) due to the real growth in the income level of Japanese combined with the recent re-evaluation of the Yen, the number of Japanese who can afford to travel abroad has greatly increased;
- (b) the amount of free time enjoyed by the average Japanese worker has been increasing; many major business establishments in Japan have begun adopting the 40-hour week and the Japanese worker is becoming more like his Western counterpart in that vacations are oftentimes taken abroad;
- (c) the active role played by travel agencies has developed a wide spectrum of tours designed to appeal to the greatest number of people with attractive group tour prices and has simplified travel abroad by overcoming the problems of language, hotel arrangements, etc.;
- (d) resort areas in Japan have become very overcrowded reaching a saturation point and causing many Japanese to seek popular tourist vacations out of the country.

#### Domestic Travel

5. While there was a remarkable increase in overseas travel by Japanese during the period of 1965-72, the number of Japanese vacationers who traveled for more than one night within the country showed a rather insignificant increase over the same period. Studies made by JTA indicate that the number of domestic tourists on vacation was 87 million in 1972 compared with 83 million in 1971. Regarding domestic travel patterns, JTA made a survey in



1972 with sampling of 3,570 persons over 18 years of age. The results of this survey also indicate no significant changes during the period of 1970-72 as is shown in the following table:

	<u>Year</u>	<u>1970</u>	<u>1972</u>
(a) Total sample (%)		$\frac{3,000}{(100)}$	$\frac{3,570}{(100)}$
(b) Number of vacation tourists away more than one night (%)		$\frac{1,626}{(54.2)}$	$\frac{1,942}{(54.4)}$
(c) Average number of visits		2.0	1.9
(d) Average expenditure per visit per person (Yen)		13,589	13,056
(e) Average number of hotel nights		2.2	2.0

6. There is one aspect of the domestic travel pattern which appears to be changing; namely, the type of travel and the mode of transportation. The number of small groups (less than five persons) making vacation trips has been increasing and large-group travel (more than six persons) has been decreasing. This trend reflects the recent rapid increase in the number of tourists who traveled by car rather than by railway or bus. However, the railways still remain as the basic transportation for domestic travel.

7. Given the above data obtained from the results of JTA surveys in 1970 and 1972, the following assumptions can be made: assuming 87 million trips were made within the country with the number of annual visits averaging 2.0, this implies that 43.5 million inhabitants could afford to make a vacation trip within the country with the average expenditure of US\$49 per visit or US\$24.50 per day. Although it is difficult to assume the potential number of Japanese traveling abroad in the next few years among these domestic tourists, attempts have been made as follows: assuming that 20% of the 43.5 million domestic tourists will be able to go abroad on vacation in the next

few years, the potential number of Japanese traveling abroad would be 8.7 million. Comparing this figure and the expected two million in 1973 and four million by 1975, which was based on the current growth trend in overseas traffic by Japanese, the above assumption proves that there is a great potential for future growth in the number of Japanese traveling abroad. This implies that the current development of overseas traffic by Japanese still appears to be in the primary stage.

#### Overseas Travel

8. The data for the number of Japanese who traveled abroad broken down by purpose and destination was incomplete for 1972. However, the number of passports issued to vacationing tourists indicates that they constituted 85% of the Japanese going abroad while passports issued to businessmen accounted for only 12% of the total in 1972. The most popular destinations for Japanese tourists are in Asia, particularly Hong Kong, Taiwan and Korea, followed by the Pacific, Hawaii and Guam. The highest growth rate was in travel to Korea; the number of Japanese who traveled to Korea more than doubled from 96,531 in 1971 to 217,287 in 1972.

9. Based on data obtained from the five leading tour operators in Japan, the most popular overseas places visited by Japanese vacation tourists were the Far East and Southeast Asian countries, including Hong Kong, Taiwan and Korea, accounting for about 34% of the total tourists in 1972. The second most popular areas are Hawaii and Guam; they accounted for about 27% and 17% of the total, respectively. There seems to be a correlation between age and the area preferred. The majority of the tourists visiting Hawaii and Guam which have a similar climate are young Japanese, many on their honeymoon and others interested in areas offering many opportunities

for sports. Those tourists visiting Asia which is rather more slanted towards sightseeing, shopping and other attractions are mainly middle-aged and older people. There is also a correlation between area and the sex of the tourist. The tourists going to Hawaii and Guam are pretty evenly divided between male and female, whereas, about three-quarters of the tourists traveling to Asia are male.

10. Japanese travel abroad all year round with the peak months being August, October, and November. In 1972, these peak months accounted for 10.8%, 9.7% and 9.7% of the total number of tourists, respectively. The second best season is in the months of July and December which in 1972 represented 8.7% and 8.6% of the total. The rest of the year accounted for a monthly average of 7.5% of the total.

#### Some Aspects of Overseas Travel Patterns

11. In light of the recent development of Japanese overseas traffic, there is a significant indication that might change the future patterns in Japanese overseas travel. Since Japan and Mainland China established diplomatic relations in September 1972, the number of Japanese traveling to Taiwan has been decreasing substantially. There seem to be several unofficial proposals by the authorities of Mainland China to Japanese major tour operators for promoting Japanese tourism in Mainland China. Although some time might pass before the commencement of regular service between Japan and China, Japanese tour operators are expecting to develop a tourist market in China in the near future. The leading tour operators in Japan are rather reluctant now to promote their business in Taiwan, which used to be the most popular market, and some of them have already stopped selling their tour programs for Taiwan.

12. Based on a Japan Airline survey, 97% of the total air tickets sold for Japanese traveling abroad were purchased through tour operators and agencies in Japan. The trade system of tour operators and agencies in Japan is well organized and adequately operated. Therefore, most of the overseas tours made by Japanese are handled by those tour operators and agencies. Along with the fast-growing trends in demand by Japanese going abroad on vacation, a wholesale system for various tour programs has been established in co-operation with air carriers and tour operators (or agencies). The development of such trade business in Japan is very active and flourishing.

13. Today, the travel industry in Japan is at a turning point as the demand for foreign travel by Japanese expands rapidly. There are a number of problems to be solved in order to meet this growing trend. The most obvious problem is to ease the regulations on chartered air operations. Since the Japanese Government has been protecting the national carriers and scheduled air operations within the context of IATA agreement, the number of chartered flights has been quite limited; chartered flights are permitted only for affinity tour groups which have become popular among Japanese business and professional organizations. On the other hand, tour operators have been using scheduled air carriers for their clients obtaining, via annual contracts, an agreed number of seats at special fares. In addition, air carriers, particularly the foreign airlines, have been offering tour operators rebates to stimulate business for the particular airline.

14. Regarding chartered flights, until recently, theoretically people who did not belong to affinity groups could not take advantage of low group rates offered by the airlines. The result, however, is that artificial

affinity groups have been created for the specific purpose of travel only. Because the airlines have become aware of this situation, they are seeking to "legalize" an already existing phenomenon. In fact, at present, air policy in Japan based on the IATA agreement is being undermined in the trade business between airlines and various concerned organizations or tour operators.

15. In view of the above factors, the Japanese Government is studying ways to modify the existing regulations with a view towards increasing the number of chartered flights and at the same time, maintaining the same number of scheduled flights. This obviously would entail expansion at all levels: more aircraft, more trained personnel, more airports with increased capacity. Concerning the expansion of airports, the Japanese Government has already started in this direction with a newly completed international airport at Narita, Tokyo, and plans to build a new one in Osaka. (The opening of the new Tokyo airport is being held up because the oil pipelines between the port and airport have not been built as yet due to local landowners' objections.)

16. Problems notwithstanding, the move towards more and more chartered flights for Japanese is irreversible much like the large chartered flight business among Americans and Europeans. With more areas close by expanding their tourist facilities (in the regions of Far East, Southeast Asia, Micronesia and South Pacific) combined with a higher standard of living in Japan and an increase in chartered flights for the Japanese, the tourist flow out of Japan should increase at a considerable pace.

#### Tourist Expenditure

17. The Bank of Japan in its 1972 report stated that Japanese tourists spent US\$775 million abroad. (This averages out to US\$558 per tourist.)

The figure, however, does not include the airfare paid in Yen to the national carriers. Based on data obtained from the leading tour operators, the most popular price range for tours is ¥ 120,000 - ¥ 180,000 (about US\$450 - US\$550). This figure is well within the reach of the average Japanese worker whose average monthly earnings rose to ¥ 110, 000 <sup>1/</sup> (US\$410) in 1972. Naturally, tour prices vary depending on destination, length of stay, etc. However, the above price range covers typical tours to the nearby areas (Far East, Southeast Asia, Micronesia, Hawaii) and includes a stay of at least three nights covering airfare, accommodations and meals. A breakdown of a typical tour is as follows: (Hong Kong-Macao Tour for three nights and four days.)

<u>Items</u>	<u>Yen</u>	<u>US\$</u>	<u>( % )</u>
(a) Airfare	64,300	243	( 50)
(b) Full-board	45,350	170	( 35)
(c) Retailer's Commission	12,900	48	( 10)
(d) Wholesaler's Commission	6,450	24	( 5)
Total:	<u>129,000</u>	<u>486</u>	<u>100</u>

Given the above data, the mission assumes that the average daily expenditure by Japanese overseas vacation tourists is about US\$60 for accommodations, meals and other expenditures on the ground, excluding airfares and tour operator's or agency's commissions.

#### Overseas Hotel Developments

18. One of the important elements in promoting Japanese overseas traffic is hotel developments by Japanese firms. This is particularly true in developing countries where the available facilities might not encourage

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<sup>1/</sup> Based on the estimated data in 1970, from the Statistical Year Book of 1972.

a large flow of tourists from Japan. A number of hotels have already been built by Japanese in the nearby areas and those areas have been visited by Japanese in ever increasing numbers. Naturally, hotel developers promote the particular overseas area in which they have invested. At the same time, the Japanese tourist responds to this promotion because they feel that the Japanese hotel will give them a semblance of the familiar. This has one effect of encouraging even greater flow of Japanese tourists to the area in question.

19. A number of Japanese firms are planning to invest in hotels with the active support of Japanese financial institutions, both public and private. At present, the most popular areas in which hotels are either being built or considered are Korea, Thailand, Singapore and Indonesia.

Prospects for the Growth in Japanese Overseas Travel

20. The outlook is bright on the growth of Japanese travel abroad. There is a new generation of Japanese for whom overseas travel is a common occurrence rather than a very rare one. At a time when a person could expect at most to make one overseas trip in his lifetime, the tendency was to try to cover as much as possible on that single trip. Today, however, the increase in income and the amount of free time combined with reduced airfares has made possible multiple trips abroad. This, in turn, has led to travelers being more selective and confining their travels on each trip to fewer places. This is reflected in modern day Japan which is seeing more trips by more individuals many of whom have been abroad at least once before.

21. While in the future Japanese can expect to travel with ease to relatively distant places, e.g., South America, for the present the bulk of their travel will be confined to places nearest to home. They include the

Far East, Southeast Asia, Micronesia and the South Pacific. In view of the above, the mission tried to focus on the areas likely to receive most of the Japanese tourists, particularly the areas in which the Bank is considering projects.

22. Korea - The recent trend toward an increase of Japanese vacation visitors to Korea is likely to continue due to several factors. One is, of course, the proximity of Japan to Korea (much like the obvious flow of American tourists to Mexico or Caribbean area). Second, there is a cultural relationship between Japan and Korea as there is between Japan and China. Cultural and language barriers are not as great for Japanese in Korea as they are in other countries. Further, typical tour programs for Korea are within a very attractive range for the average Japanese people (US\$320 for all inclusive package tour to Korea for three nights and four days) as compared with the average price range mentioned in para 17.

23. While at the moment travel to Korea by Japanese vacationers is confined to package tour groups, in the future many Japanese will probably travel to Korea on their own. The high visibility of Korea as a tourist destination in available tour programs combined with an active advertising program carried on by the airlines and tour agencies will encourage Japanese to go to Korea on their own. This is particularly true of Japanese who have already been there as part of a group.

24. Indonesia - Indonesia, particularly Bali, will see great development in the future as more hotels are built and more chartered flights are put into operation. Because of the familiarity of the name of Bali as well as the general knowledge of its cultural past, there is self-generating desire on the part of many Japanese to visit the island. The same tourist boom now occurring in Hawaii and Guam is likely to occur in Bali; similarly,



it is likely to become a single destination for substantial numbers rather than part of a multiple-stop package.

25. Other Areas - There will be a strong trend among the Japanese to go South in the Pacific area. The warm climate, the beaches, the relative lack of crowds and the same time zone make this a highly desirable area. One country which has just begun to be promoted is the Philippines; this is still in its infancy, however, because of insufficient facilities and lack of concrete plans. One spot that has been mentioned is the Mindanao Islands.

26. A second country in the South Pacific is Fiji, where the Bank is currently expecting to finance a project. A large Japanese real estate developer has acquired land with the view towards building condominiums and villas. Once the interest is developed, it is expected that the Japanese hotel industry will build there. Japan Airlines is planning a direct flight to Tahiti from Tokyo, eventually extending to Fiji.

27. To assess the potential market demand for overseas travel by Japanese, a projection on the number of Japanese traveling abroad was made for the next ten years, 1973-1982 (see attached table). It is projected that 1.8 million Japanese will go abroad in 1973, reaching 6.1 million in 1977 and 17.3 million by 1982. The annual average growth rates in this projection are 34% in the period 1972-77 and 23% in 1977-82, as compared with the recent growth rate of 42% during the last four-year period of 1968-72. This projection is based mainly on the expected continued growth in the number of Japanese traveling abroad on vacation and, also, on the assumption that the recent growth in Japanese overseas traffic is still in its primary stage.

28. As a basis of comparison we may refer these projections to the United Kingdom, which bears many similarities to Japan in terms of being an

industrialized island with populations enjoying income levels which permit foreign travel for a substantial part of the population. In 1972 about 8.5 million British went abroad, 15% of the total population in the U.K. The projected figure of 17.3 million for Japan by 1982 would about be the same proportion, 17% of the total population. However, it is expected that the average income level of Japanese will increase considerably in the next ten years, which would enable a greater number of Japanese to go abroad on vacation. Thus the projection may prove conservative.

NUMBER OF JAPANESE TRAVELLING ABROAD<sup>1/</sup>

Year	Outgoing Japanese		
	Destinations other than Okinawa	Okinawa	Total
1962	74,822 ( 87)	70,927 (123)	145,749 (101)
1963	100,074 (134)	86,357 (122)	186,431 (128)
1964	127,749 (128)	93,560 (108)	221,309 (119)
1965	158,827 (124)	106,856 (114)	265,683 (120)
1966	212,409 (133)	128,949 (120)	341,358 (128)
1967	267,538 (126)	160,291 (124)	427,829 (125)
1968	343,542 (128)	198,174 (124)	541,716 (127)
1969	492,880 (143)	219,200 (110)	712,080 (131)
1970	663,467 (135)	272,738 (124)	936,025 (131)
1971	961,135 (145)	307,082 (111)	1,268,217 (135)
1972	1,392,000 (145)	141,028 ( 46)	1,533,028 (121)

<sup>1/</sup> The figures in ( ) indicate the increase rate (%) based on the previous year's figures. (Index = 100)

Source: Ministry of Justice

NUMBER OF PASSPORTS ISSUED TO JAPANESE BY PURPOSE

Year	Pleasure (%)	Business (%)	Culture (%)	Immigration (%)	Other (%)	Total (%)
1967	117,506 (46)	104,255 (40)	6,284 (3)	7,106 (3)	20,278 (8)	255,399 (100)
1968	174,845 (54)	118,064 (37)	10,881 (3)	6,869 (2)	11,015 (4)	321,674 (100)
1969	283,541 (60)	162,299 (34)	11,240 (2)	6,914 (2)	9,416 (2)	473,410 (100)
1970	415,132 (64)	195,109 (30)	10,782 (2)	10,086 (2)	13,575 (2)	644,684 (100)
1971	651,904 (76)	174,092 (20)	8,222 (1)	8,228 (1)	14,165 (2)	856,611 (100)
1972	915,194 (85)	131,687 (12)	9,042 (1)	7,032 (1)	13,074 (1)	1,076,029 (100)

Source: Ministry of Foreign Affairs.

JAPANESE TOURISTS ABROAD BY SELECTED DESTINATION<sup>1/</sup>

Countries or Territories	1968	1969 (%)	1970 (%)	1971 (%)	1972 (%)
Hong Kong	96,387	143,746 (149)	168,473 (117)	237,950 (141)	349,212 (147)
Taiwan	103,332	143,624 (139)	177,446 (124)	255,699 (144)	277,704 (109)
Thailand	31,548	42,872 (136)	46,952 (110)	55,777 (119)	60,674 ( ) <sup>2/</sup>
Korea	25,219	32,181 (128)	51,711 (161)	96,531 (187)	217,287 (225)
Singapore	20,004	25,546 (128)	32,739 (128)	45,057 (138)	70,280 (156)
Philippines	14,188	15,202 (107)	15,838 (104)	23,589 (149)	25,969 (110)
Indonesia	n.a.	7,814	8,416 (108)	n.a.	n.a.
Australia	6,770	9,024 (133)	11,217 (124)	16,042	n.a.
New Zealand	1,910	2,524 (132)	3,300 (131)	4,500	n.a.
Canada	12,515	18,525 (148)	22,011 (119)	25,855	n.a.
U.S.A.	99,408	136,528 (137)	207,455 (152)	311,066 (137)	417,048 (146)
of which: Hawaii	51,625	60,710 (118)	93,665 (154)	144,860 (155)	200,700 (139) <sup>3/</sup>
Guam	n.a.	n.a.	35,775	75,000 (210)	99,400 (133) <sup>3/</sup>
Italy	74,100	94,600 (128)	150,300 (159)	148,500	n.a.
Spain	19,681	25,007 (127)	32,700 (131)	40,622	n.a.
U.K.	42,500	59,100 (139)	82,461 (140)	100,465	132,697 (132)
West Germany	98,669	117,345 (119)	141,327 (120)	146,881	n.a.
Switzerland	61,139	80,118 (131)	100,455 (125)	119,407	n.a.

<sup>1/</sup> (a) The figures are the number of Japanese visitor arrivals to each country or territory.

(b) The figures in ( ) indicate the increase rate (%) over the previous year.

<sup>2/</sup> Data for January-September 1971 only.

<sup>3/</sup> Estimates based on the data obtained from the leading tour operators in Japan.

Source: OECD, IUOTO and Tourism Bureau of Ministry of Transportation (Japan) and JNTO.

POPULAR DESTINATIONS BY JAPANESE VACATIONING TOURS

	Far East & Southeast Asia	Guam	Hawaii	U.S.A.	Europe	Round the World	Other	Total
<u>1970</u> - JTB	22,556	9,870	13,532	2,561	8,573	656	121	57,869
JALPAK	2,913	3,425	17,080	1,392	5,075	114	-	29,999
NIPPON EXPRESS	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
HANKYU	7,100	1,100	2,700	2,500	3,200	80	340	17,020
KINKI	22,670	374	4,936	2,196	4,142	440	-	34,758
<u>Total</u>	<u>55,239</u>	<u>14,769</u>	<u>38,248</u>	<u>8,649</u>	<u>20,990</u>	<u>1,290</u>	<u>461</u>	<u>139,646</u>
(%)	(39.6)	(10.6)	(27.4)	(6.2)	(15.0)	(0.9)	(0.3)	(100.0)
<u>1971</u> - JTB	39,071	17,703	21,121	3,063	13,285	70	3,770	98,083
JALPAK	8,806	10,187	27,404	1,948	5,316	1,223	-	54,884
NIPPON EXPRESS	10,846	24,180	18,668	1,038	5,918	304	2,377	63,331
HANKYU	11,100	1,900	4,700	5,800	5,000	100	230	28,830
KINKI	33,205	1,504	9,974	1,562	5,784	241	179	52,449
<u>Total</u>	<u>103,028</u>	<u>55,474</u>	<u>81,867</u>	<u>13,411</u>	<u>35,303</u>	<u>1,938</u>	<u>6,556</u>	<u>297,577</u>
(%)	(34.6)	(18.6)	(27.5)	(4.5)	(11.9)	(0.7)	(2.2)	(100.0)
<u>1972</u> - JTB	49,598	23,147	27,969	4,977	27,466	1,155	1,727	136,039
JALPACK	10,903	15,309	34,173	6,538	7,065	615	-	74,603
NIPPON EXPRESS	10,272	24,519	25,719	2,707	7,222	299	3,132	73,870
HANKYU	17,100	4,200	9,200	6,300	8,500	150	300	45,750
KINKI	52,797	6,340	16,370	3,055	8,329	75	355	87,321
<u>Total</u>	<u>140,670</u>	<u>73,515</u>	<u>113,431</u>	<u>23,577</u>	<u>58,582</u>	<u>2,294</u>	<u>5,514</u>	<u>417,583</u>
(%)	(33.7)	(17.6)	(27.2)	(5.6)	(14.0)	(0.6)	(1.3)	(100.0)
<u>Grand Total</u>	<u>298,937</u>	<u>143,758</u>	<u>233,546</u>	<u>45,637</u>	<u>114,875</u>	<u>5,522</u>	<u>12,531</u>	<u>854,806</u>
(%)	(35.0)	(16.8)	(27.3)	(5.4)	(13.4)	(0.6)	(1.5)	(100.0)

Source: The five major tour operators in Japan.

SEASONALITY OF JAPANESE TOURISTS ABROAD<sup>1/</sup> (1969-72)

	1969	1970	1971	1972	Total (1969-72)	Average (1969-72)	(%)
January	46.8	60.4	81.9	96.5	285.6	71.4	(6.4)
February	56.4	72.6	103.2	124.3	356.5	89.2	(8.0)
March	65.8	71.9	108.8	121.4	367.9	92.0	(8.3)
April	55.3	73.3	98.0	127.6	354.2	88.6	(8.0)
May	55.3	63.1	95.4	120.4	334.2	83.5	(7.5)
June	45.7	62.3	84.5	106.7	299.2	74.8	(6.7)
July	62.8	86.4	114.5	121.3	385.0	96.2	(8.7)
August	81.5	106.8	136.3	153.5	478.1	119.5	(10.8)
September	49.7	77.5	89.8	121.4	338.4	84.6	(7.6)
October	63.7	91.5	124.2	152.0	431.4	107.8	(9.7)
November	69.4	89.4	116.5	156.4	431.7	107.9	(9.7)
December	<u>59.7</u>	<u>81.0</u>	<u>110.1</u>	<u>131.1</u>	<u>381.9</u>	<u>95.5</u>	<u>(8.6)</u>
<u>Total</u>	<u>712.1</u>	<u>936.2</u>	<u>1,263.2</u>	<u>1,532.6</u>	<u>4,444.1</u>	<u>1,111.0</u>	<u>(100.0)</u>

<sup>1/</sup> The figures include overseas travel by Japanese to Okinawa.

Source: Ministry of Justice

AVERAGE MONTHLY HOURS WORKED PER REGULAR WORKER<sup>1/</sup>

Year	Average Monthly Working Hours		
	Total	Scheduled	Non-scheduled
1962	197.8	179.0	18.8
1965	192.9	176.4	16.5
1967	193.0	174.5	18.5
1969	190.0	171.4	18.6
1971	185.7	169.9	15.8
1972	184.7	169.3	15.4
<u>Difference</u>			
(1962-72)	13.1	9.7	3.4

<sup>1/</sup> The above figures are the average monthly hours worked per regular worker in all of the private, national government and local government establishments (excluding some certain industries) which employ habitually more than 30 regular employees.

Source: Ministry of Labor



PATTERNS OF AVERAGE ANNUAL CONSUMER SPENDING AND  
LEISURE EXPENDITURES OF URBAN WORKER HOUSEHOLDS 1/

<u>Year</u>	<u>Expenditures</u>			<u>Ratio</u>	
	(a) <u>Total</u> (₹.000)	(b) <u>Leisure</u> (₹.000)	(c) <u>Travel</u> (₹.000)	b/a (%)	c/b (%)
1966	673.2	136.2	12.4	20.2	9.1
1967	733.1	152.0	14.3	20.7	9.4
1968	797.3	170.1	15.6	21.3	9.2
1969	882.0	198.2	18.0	22.5	9.1
1970	993.5	226.6	23.9	22.8	10.6
<u>Increase</u>					
1966-1970	47.5%	67.0%	93.0%		

Source: Statistics Bureau, Prime Minister's Office

1/ Based on the data surveyed for all the cities which have more than 50,000 population.

1/

AVERAGE MONTHLY INCOMES AND EXPENDITURES OF URBAN WORKER HOUSEHOLDS

<u>Monthly Average (Year)</u>	<u>Average Size of Households (Persons)</u>	<u>Real Income</u>	<u>Disposable Income</u>	<u>Expenditures (in Yen)</u>					
				<u>Total</u>	<u>Food</u>	<u>Housing</u>	<u>Fuel &amp; Light</u>	<u>Clothing</u>	<u>Misc.</u>
1960	4.4	40,895	37,708	32,093 (100 %)	12,440 (38.8)	3,139 (9.8)	1,552 (4.8)	3,934 (12.3)	11,028 (34.4)
1965	4.1	68,419	62,340	51,859 (100 %)	18,801 (36.3)	5,151 (9.9)	2,269 (4.4)	5,874 (11.3)	19,764 (38.1)
1970	3.9	115,379	105,715	84,638 (100 %)	27,462 (32.4)	9,592 (11.3)	3,045 (3.6)	8,911 (10.5)	35,629 (42.1)
1971	3.9	127,236	116,619	93,745 (100 %)	29,655 (31.6)	10,940 (11.7)	3,358 (3.6)	10,011 (10.7)	39,781 (42.4)

Source: Statistics Bureau, Prime Minister's Office

1/ Based on the results of surveys for all the cities which have more than 50,000 population.

2/ Includes automobile allied expenses. Such expenses before 1968 are included in housing and fuel and light expenses.

JAPANESE TOURIST MARKET  
PROJECTION ON NUMBER OF JAPANESE TRAVEL ABROAD  
(000)

Current Year	Vacation	Business	Other	Total
(Actual)				
1968	154.2	161.7	27.6	343.5
1969	255.5	205.8	31.6	492.9
1970	364.9	258.8	39.8	663.5
1971	634.3	249.9	76.9	961.1
1972	974.4	348.0	69.6	1,392.0
(Projections)				
1973	1,364.2	400.2	80.0	1,844.4
1974	1,909.8	460.2	92.0	2,462.0
1975	2,673.8	529.3	105.9	3,309.0
1976	3,743.3	608.7	121.7	4,473.7
1977	5,240.6	700.0	140.0	6,080.6
1978	6,550.7	770.0	154.0	7,474.7
1979	8,188.4	847.0	169.4	9,204.8
1980	10,235.5	931.7	186.3	11,353.5
1981	12,794.3	1,024.9	205.0	14,024.2
1982	15,992.9	1,127.4	225.5	17,345.8
<u>Average Annual</u>				
<u>Growth Rate (%)</u>				
1968-72	59.0	21.0	26.0	42.0
1972-77	40.0	15.0	15.0	34.0
1977-82	25.0	10.0	10.0	23.0
1972-82	32.0	12.5	12.5	29.0

Source: Mission's estimates.

KOREA  
APPRAISAL OF THE KYONGJU TOURISM PROJECT  
MARKET DEMAND

May 21, 1973

I. Present Foreign Visitor Traffic to Korea

1. The development of tourism in Korea has grown rapidly due to the emergence of Japan as a major new source of tourists. Until 1970, U.S. visitors constituted the largest group among all visitors to Korea. However, the number of Japanese visitors has increased at a very fast pace and has constituted the major proportion of all visitors to Korea since 1971. This growth trend in Japanese visitors to Korea reflects the recent marked development of overseas traffic by Japanese, particularly those traveling abroad on vacation.

2. The total number of foreign visitor arrivals to Korea increased from 67,965 in 1966 to 370,656 in 1972, showing an annual average growth rate of 33% over the period. Comparing the 1971 figure, the number of foreign visitors rose by 59% in 1972. The major impetus behind this recent increase came from the growth in visitor traffic to Korea by Japanese, as is evident from Table 1.

Table 1: VISITORS TO KOREA BY NATIONALITY, 1966-72

Nationality	1966	1970	1971	1972	Av. Annual Growth Rate 1966-1972
U.S.A.	30,226 (44.4%)	55,352 (31.9%)	58,003 (24.9%)	63,578 (17.2%)	15
Japan	16,873 (24.9%)	51,711 (29.8%)	96,531 (41.5%)	217,287 (58.6%)	56
Koreans Resident in Japan	12,005 (17.6%)	33,797 (19.5%)	50,350 (21.6%)	55,280 (14.9%)	29
Others	<u>8,861 (13.1%)</u>	<u>32,475 (18.7%)</u>	<u>27,911 (12.0%)</u>	<u>34,511 ( 9.3%)</u>	<u>26</u>
Total	67,965(100.0%)	173,335(100.0%)	232,795(100.0%)	370,656(100.0%)	33%
Index (1966=100)	100	255	343	545	-

Data Source: Ministry of Transportation, Bureau of Tourism Promotion, 1973

3. Vacation visitor traffic to Korea grew at an annual average growth rate of 52% over the last 6 years and, in 1972, constituted 56.4% of all visitors compared with 27.6% in 1966. Business visitor numbers increased at a rate of 23% during the same period but declined as a proportion of the total from 13.2% in 1966 to 8.3% in 1972. The visitor numbers in a general non specific category labeled "Other" showed a relatively high annual growth rate of 42% over the same period. This reflects a greater exchange of citizens and ideas between Koreans and other countries on a non-official level, i.e. in sports, in education, in research, etc. The following table shows the breakdown by purpose of visit.

Table 2: VISITORS BY PURPOSE, 1966-72

Purpose	1966	1970	1971	1972	Av. Growth Rate (%) 1966-72
Vacation	18,750 (27.6%)	53,920 (31.1%)	95,540 (41.0%)	209,180 (56.4%)	52
Business	9,026 (13.2%)	21,447 (12.4%)	22,575 ( 9.5%)	30,856 ( 8.3%)	23
Official <sup>1/</sup>	19,098 (28.1%)	26,481 (15.5%)	27,208 (11.7%)	31,847 ( 8.6%)	9
Family Visit <sup>2/</sup>	15,712 (23.1%)	37,880 (21.8%)	50,518 (21.7%)	55,107 (14.9%)	23
Other <sup>3/</sup>	5,375 ( 8.0%)	33,607 (19.4%)	36,954 (16.1%)	43,666 (11.8%)	42
Total	67,965(100.0%)	173,335(100.0%)	232,795(100.0%)	370,656(100.0%)	33%

<sup>1/</sup> Including military and diplomatic personnel as well as persons on official business.

<sup>2/</sup> This category consists primarily of persons coming to Korea to visit relatives.

<sup>3/</sup> Under this category are included culture and gymnastics, journalism, research and training, employment, residence and all others.

4. Vacation visitor traffic to Korea has risen at a much faster pace than the overall increase, particularly Japanese coming to Korea by group and package tours. The number of Japanese going to Korea more than doubled from 1971 to 1972 (96,500 vs. 217,300); this figure does not include Koreans who are resident in Japan and who visited Korea. Of the 217,300 Japanese visiting Korea in 1972, 179,800 (about 83%) were vacationers. This figure was also more than double the 1971 figure for Japanese vacationers to Korea. The increase in vacation visitor traffic by other nationalities was slower by 24% in 1971-72 and the number of these vacationers was still marginal: 17,800 for U.S. vacation visitors and 11,600 for other nationalities in 1972. (see attached table 3)

5. The number of Koreans resident in Japan who go to Korea constitutes a relatively significant proportion of the total foreign visitors. In 1972, 55,280 Koreans resident in Japan went to Korea, which represents 15% of the total visitors to Korea. The number of those Koreans going to Korea has increased rather rapidly in recent years. However, most of them were on family visits; in 1972, over 95% of the total Koreans resident abroad who went to Korea were on family visits.

6. In spite of distinct seasonal changes in Korea, the tourist flow is fairly even throughout the year, except for the winter months of January and February. The greatest number of tourists come between April and November with the peak months being August, September and October. This seasonal pattern of foreign visitors to Korea may imply that Japanese travel patterns have no marked seasonality which may partially account for the almost continuous flow of Japanese tourists throughout the year.

7. 91.4% of the tourists to Korea in 1972 came by air. The rest arrived by sea. The main port of entry for sea travelers to Korea is Pusan which has a thrice-weekly service linking it to Shimonoseki, Japan. There are plans to

further improve the ferry service. In addition, it is expected that a large number of visitors will come by chartered vessels from Kobe or Shimonoseki, Japan, to Pusan. These chartered vessels began operating in the middle of 1972 and the number who have already traveled on them is quite significant. 7,500 came in the nine months' period of July 1972 - March 1973; 16,000 are expected to come in the period from April to December 1973. In all likelihood, the demand for travel on these chartered vessels will increase rapidly.

8. Data from the Bank of Korea showed that foreign exchange earnings from tourism increased from US\$ 31.2 million in 1971 to US\$ 74.7 million in 1972. Assuming an average five day stay per visitor to Korea, the average daily expenditure per tourist was about US\$ 40. This data, however, is incomplete since not all foreign exchange transactions were recorded in the official statistics. A substantial amount of these transactions by Japanese visitors did not go through official exchange channels due to the interest of Koreans in obtaining Japanese yen, which is more highly valued there than the US dollar. Thus, the actual foreign exchange earnings from foreign visitors to Korea should be much higher than the official figures would indicate. Based on the results of a survey by the Kyongju Tourism Economic Group in 1972 the following is the breakdown of average daily expenditures by foreign tourists in Korea:

<u>Expenditure Items:</u>	<u>Overnight Visitors</u>		<u>Day Visitors</u>	
	( US \$ )	( % )	( US \$ )	( % )
Accommodation	12.39	24.5	0.40	2.4
Food and Beverage	9.86	19.5	4.01	23.6
Entertainment	11.37	22.5	5.73	33.7
Local Transport	4.82	9.5	2.43	14.3
Shopping	8.17	16.2	3.79	22.3
Others <sup>1/</sup>	3.95	7.8	0.65	3.8
Total:	50.56	100.00	17.01	100.00

<sup>1/</sup> Tip, service fees, etc.

## II. Future Foreign Visitor Traffic to Korea

9. The recent development of tourism in Korea, particularly vacation trips by foreigners, is in its primary stage. The number of foreign visitors to Korea has been increasing remarkably in recent years and this growth trend is likely to continue with a large number of vacation tourists to Korea. The main source for Korean tourism is and will continue to be Japan. The second market for Korean tourism will probably be North America, although they will constitute a relatively small proportion of total foreign visitors to Korea. The business visitor traffic could be expected to grow to keep pace with the Korean economy in the next few years. Vacation travel is governed by different considerations, and these are discussed below.

### a) Japanese Vacation Visitor Traffic

10. The history of relations between Korea and Japan has been checkered by periods of great animosity and periods of relatively peaceful and beneficial interaction. The ill-feeling and the resentment to which the period of the Japanese annexation of Korea in the first half of this century (1905-1945) gave rise are dissipating and contacts between the two countries have been steadily improving and increasing since the Normalization Treaty signed in 1965.

11. Korea has a number of advantages over other Asian countries competing for the Japanese tourist market:

- (i) its relatively low price level.
- (ii) its unique cultural and historical remains which predate those in Kyoto and Nara in Japan and which are of interest to the Japanese.
- (iii) its proximity to Japan and the potentially low transportation costs involved.
- (iv) the fact that many Koreans, particularly of the older generation, speak Japanese.



12. Japanese tourists to Korea could be drawn from several groups:

(1) Japanese school groups, who for the same cost involved in travelling from one part of Japan to another, could visit some of the archaeological remains in Korea; (2) college-age students; (3) those Japanese who have been to such places as Taiwan, Hong-Kong, Macao, etc., and who are looking for new nearby places; (4) companies who sponsor trips for their personnel.

13. The future travel patterns of Japanese might change due to political and other factors. The establishment of diplomatic relations between Japan and mainland China has reduced the number of Japanese going to Taiwan. Major Japanese tour operators have begun cutting down on the number of tours to Taiwan because of an apparent decrease in interest by Japanese. The slack is partially being taken up by vacation trips to Korea which Japanese tour operators are heavily promoting. What makes this important is the fact that 97% of the total air tickets sold to Japanese is handled through tour operators (based on Japan Airlines survey). The price range of typical tour programs for Korea is within the economic reach of most Japanese and among the nearby countries Korea is in a good position to compete for the Japanese tourist market. The following table shows a comparison of the prices for tours to typical destinations of Japanese vacation tourists.

<u>Destination</u>	<u>Duration</u>	<u>Price For 1973</u>	
		<u>Yen</u>	<u>US \$</u>
Hawaii	4 nights/6 days	168,000	634
Guam	4 nights/5 days	106,000	400
Hong-Kong/Macao	3 nights/4 days	129,000	487
Korea	3 nights/4 days	85,000	321

14. While at the moment travel to Korea by Japanese vacationers is confined to package tour groups, in the future many Japanese will probably travel to Korea on their own. The high visibility of Korea as a tourist destination in

available tour programs combined with an active advertising program carried on by the airlines and tour agencies will encourage Japanese to go to Korea on their own. This is particularly true of Japanese who have already been there as part of a group. Assuming that the economic situation in Japan remains stable, prospects for an increase in Japanese traffic to Korea are favorable.

b) North American and European Vacation Visitor Traffic

15. The Far East has been visited by comparatively few foreigners in the past; however, the next few years should see a very real growth in the number of vacation visitors from the North American and European countries. They will naturally continue to visit already popular places in the Orient, e.g. Hong-Kong, Japan, etc. Several factors, however, will act to broaden the scope of the area visited. One, more and more tour operators are offering inclusive tours to Asia which include countries which have hitherto had few vacation visitors, e.g. Korea, Philippines, Indonesia, etc. Second, sometime in the future, it is expected that China will normalize its relations with other countries and will open its doors to the ordinary vacationing tourists. Some part of the large upsurge in tourism to the area caused by this will certainly be interested in visiting neighbouring countries and Korea will benefit from this future trend. Third, as both the Korean Government and tour operators increase publicity both about Korea and tours available to the area, the western tourist interested in going to Asia will very likely consider Korea as an interesting place to visit. Fourth, the western tourist who travels has been to countries in Europe and the Americas; his next natural travel goal is Asia. It has become a feasible goal because of the increase in real income, and a reduction in the overall cost of such a trip. In view of the above, the number of foreign visitors from the U.S. and the other western countries will steadily continue to increase.

c) Some Aspects of Market Considerations

16. Korea has a great tourist potential; however, it will not be realized

unless the facilities in the proposed areas for tourist development are carefully planned and implemented. At present, the plans to develop various areas are being finalized and financial arrangements being made to implement them. In addition, the public sector has begun to provide some basic infrastructure. This is taking place in such areas as Seoul, Pusan, Kyongju, and Cheju Island. Since the development of tourism in Korea is relatively new and both the public and private sectors are working to insure its success, the prospects look good.

d) Projections

17. After a review of past and current foreign tourist trends in Korea with the Korean authorities and tour operators, the number of potential foreign visitors to Korea has been projected for the next ten years, 1973-82. Starting with the actual figure of 370,700 in 1972, the total number would be 1.2 million in 1977 and 2.6 million in 1982. The average annual growth rates would be 26% in the period 1972-77, and 17% for the period 1977-82. In view of the past annual average growth rates of 33% during the 1966-72 period, and 43% in the period 1969-72, the projected growth rates are considered realistic and attainable. The projection is based on the assumption of continued increase in the number of visitors by category, particularly a considerable growth in vacation visitors. This is dealt with more fully in annex.

18. Given the data from the Bank of Korea and KTD Economic Study Group on the tourist expenditures in Korea, combined with the market projections on the number of foreign visitors to Korea, the foreign exchange earnings from tourism are expected to increase from US\$74.7 million in 1972 to US\$93.2 million in 1973 and US\$186.7 million by 1976. These estimated figures are based on the average daily expenditure of US\$40 per tourist which is a rather conservative figure as mentioned in Para. 8. Thus, the above figures are considered attainable.

Since in the five year plan the total foreign exchange earnings from commodities and services are expected to be US\$3 billion in 1976, the receipts from tourists estimated for 1976 would be about 6% of the total earnings. This implies that tourism will be a significant source of foreign exchange earnings in the future as shown in the increase from the 1971 figure of US\$38.9 million which was about 2.5% of the total earnings.

### III. Present Foreign Visitor Traffic to Kyongju

19. The number of foreign tourists to Kyongju increased by 68% from 44,650 in 1971 to 77,300 in 1972. Of the total number, 46,000 stayed in the area for more than one night in 1972; this figure shows an increase of 77% over the 1971 figure. However, due to a severe lack of adequate accommodation facilities and other tourist facilities in Kyongju, the flow of foreign visitors to the area is still small in relation to the total number of visitors to Korea.

20. Most of the foreign tourists are from Japan. According to the local hotel managers, over 90% of those coming to Kyongju on sightseeing are Japanese tourists, particularly group or packaged tours staying in the area one or two nights on the way to or from Pusan and Seoul. A very small number of non-Japanese foreign tourists go to Kyongju, due perhaps to the fact that Kyongju is not known to non-Japanese foreign visitors to Korea. In view of the characteristics of foreign visitor traffic to Kyongju, the average length of stay by tourists is relatively short. Based on the data from the KTD Economic Study Team, the foreign tourists stayed in the area on the average of 1.8 days.

21. Some foreign tourists visit Kyongju on day trips from the Pusan area. Since there are resort tourist areas near Kyongju (i.e. Dongnae, Haeunde and Pusan) where tourist facilities such as beaches, hot springs, and golf courses are available, a number of foreign visitors stay in the places overnight and go to Kyongju on day trips visiting the historical sites.

22. While the number of foreign visitors to the area is still small, the flow of visitor traffic is fairly constant throughout the year except for the three winter months (December-February). The peak month for foreign visitors is August, followed by October and November. The temperature of Kyongju is relatively mild during the period of April-November.

23. Until the Seoul-Pusan Highway opened in 1970, railway was the major means of transportation for visitors to Kyongju. In 1972, more than 50,000 passenger cars used the highway to travel to the area. Rail is still important, however, particularly for those Koreans in the lower-income brackets. Express bus lines connect Kyongju to three major areas: Seoul (10 times daily); Taegu (21 times daily); Pusan (35 times daily). It is expected that bus service will continue to serve as the major means of transportation because of its frequency and speed. A survey made by the Kyongju Tourism Development Economic Study Team in 1972 showed that the most popular means of transportation for foreign visitors to Kyongju was the sightseeing bus, followed by taxis and express buses. The train was the least popular form of transportation for foreign visitors.

24. Based on the data from the KTD Economic Team, the expenditures by foreign visitors to Kyongju are estimated at about US\$5 million in 1972 or 7% of the total receipts from overall foreign visitors to Korea. This amount covers both overnight and day visitors to the area. Average daily expenditures per visitor are estimated at US\$53 for an average stay of 1.8 days and US\$20 for a day excursionist. These average expenditures seem to be relatively high for current existing tourist facilities in the area. This may indicate that most of the overnight visitors spend a considerable amount of money for entertainment at traditional Korean restaurants in the area and that the day visitors include expenditures for transportation between Kyongju and the places they stay.

#### IV. Future Foreign Visitor Traffic to Kyongju

25. The number of vacation visitors to Korea has been increasing remarkably in recent years, and this trend is likely to continue in the foreseeable future. The growth in vacation tourism is particularly important for the development of tourism in the Kyongju area as one of the major destinations for foreign vacation visitors to the country. Kyongju was the capital of the Silla dynasty which ruled over the southern portion of the Korean peninsula from 58 B.C. to 668 A.D. and all of Korea from 668 A.D. to 935 A.D. The area contains many important historical sites and cultural properties. Along with the natural scenic beauty, these historical and cultural assets can make the area appeal to a large number of foreign visitors. Further, because of Kyongju's easy accessibility from the major tourist areas supported by the highway between Pusan and Seoul, the area could expect to obtain a large part of the tourist influx to Korea provided it could offer adequate accommodations in sufficient numbers and other tourist facilities (e.g. golf courses, swimming pools, shopping centers, game centers, traditional Korean restaurants, etc.).

##### a) Japanese Vacation Visitor Traffic

26. The main source of foreign tourists for Kyongju will be Japan. Apart from the relatively low price level for Japanese tourists, the most important factors which could cause a large flow of Japanese visitors to Kyongju are: 1) the historical and cultural relationship between the two countries and 2) the proximity of Japan to Korea. Along with the recent development of group or package tour programs by air for Japanese traveling to Korea, there has also been an increase in sea traffic between the two countries; there is improved ferry service between Shimonoseki, Japan, - Pusan, and a new charter service between Kobe or Shimonoseki and Pusan. Thus, various groups of young and old Japanese can easily enjoy vacations in the Kyongju area rather than spending

their vacation time in the already overcrowded resort areas of Japan. They can either go on their own or as part of a tour group. The interest in the area for Japanese tourists on vacation should certainly improve with the provision of golf courses, indoor pools and other resort amenities which appeal to a large group of Japanese. These facilities, naturally, cause more visitors to stay longer in the area. In view of the above, at least 50% of those Japanese visitors to Korea are expected to go to Kyongju which would constitute over 85% of the total foreign visitors in the next decade.

b) Non-Japanese Vacation Visitor Traffic

27. In line with the prospects for the future growth in non-Japanese foreign visitor traffic to Korea, as mentioned in Para 15, a substantial number of those vacation tourists is expected to visit the Kyongju area. The travel patterns of these foreign tourists to Korea, particularly those coming from the North America and European countries, are different from that of Japanese visiting Korea. Most of these foreign tourists will visit Korea on long holiday trips to Asia promoted by tour operators. Thus, the purpose of their trips to Korea will be purely for sightseeing with a relatively limited length of stay. In this regard, Kyongju offers the most possibilities for these tourists. Given the unique Korean cultural and historical assets, a considerable number of those vacation tourists should come to Kyongju after the area has been given wide-spread publicity by the Korean Government, air carriers and tour operators. While the number of non-Japanese foreign visitors to Kyongju will increase steadily, the proportion of these foreign visitors to the area will probably remain small due to the expected large flow of visitor traffic from Japan. It is expected that the proportion of foreign visitors to the area by originating countries will be about 85% for Japan, 10% for U.S. and 5% for other countries.

c) Projection

28. The Pomun Lake area will be developed as a major tourist destination for

foreign visitors to Korea. The plan calls for 3,000 hotel rooms by 1982 supported by all the necessary infrastructural development. To assess the potential market demand for the area, the future foreign traffic flow to Kyongju has been projected. This projection is based mainly on the expected number of overall vacation visitors to Korea. It is estimated that the number of foreign visitors to Kyongju (both day and overnight visitors) will increase from the actual figure of 76,300 in 1972 to 344,200 in 1977 and 1.2 million in 1982. The annual average growth rates would be 36% in the period of 1972-77 and 29% in 1977-82. These figures imply that the proportion of foreign visitors to the area would increase from 20% of all visitors to Korea in 1972 to 29% of the total in 1977 and 64% in 1982. In view of the current development plan for Pomun, combined with the possibility of the future growth in foreign visitor traffic to Kyongju as mentioned above, the projection sited should be attainable.

29. Assuming that the first stage of development plan for Pomun will be completed in the middle of 1976, it has been projected that the number of foreign visitors for an average stay of 1.5 - 1.7 days in the area would be 189,300 in 1977, increasing to 805,500 in 1982; these figures represent 55% of the expected total visitors to Kyongju in 1977 and 65% in 1982. While a large number of the total visitors is expected to stay in the area for at least one night, the rest will come on day trips; some will come to the area for golf only, and some to use the other facilities on their sightseeing trips around the historical sites.

30. Tourist expenditures in the area could be broken down by type of visitors (overnight and day visitors). It is estimated that the average daily expenditures will be US\$43 for an overnight visitor and US\$10 for a day visitor at the 1972 price level; these figures are rather conservative in relation to the figures given by the KTD Economic Team. Based on the above factors including



an average stay of 1.5 - 1.7 days for overnight visitors, the total receipts from foreign visitors to the area would be US\$13.62 million in 1977, increasing to US\$62.54 million in 1982. Since this projection does not take into account inflational factors, the actual foreign receipt earnings would probably be much higher.

31. Kyongju is still largely a center for domestic tourism. In 1972, 1.3 million domestic tourists went to Kyongju, of which one million stayed in the Kyongju area for at least one night. The proposed development of the area, including the existing Kyongju city, will be essential to upgrade tourist facilities needed for both domestic and foreign tourists. The improvement of existing facilities and the creation of a new international tourist resort complex in the Pomun Lake area will attract even more domestic tourists as well as foreign tourists. This should result in Kyongju becoming the most important tourist destination in the country.

Mr. Geoffrey Shepherd

May 22, 1973

Helen Hughes

Terms of Reference: Commonwealth Caribbean Secretariat:  
Bank Assistance for Regional Textiles Study

1. On or about May 24, 1973, you will go to Georgetown, Guyana, to assist the Commonwealth Caribbean Secretariat in launching a brief study of the regional textile industry. You will remain in the Caribbean for about 10 days.
2. This study is designed to make recommendations on the levels of protection on textiles and garments to be adopted in the common external tariff of the new Caribbean Common Market.
3. On arrival, you will be briefed by the Commonwealth Caribbean Secretariat. You will then visit, in the company of an engineer from the Secretariat, some of the major textile production and trade centers of the Commonwealth Caribbean countries. You will return to Georgetown to report your findings to the Secretariat and to make recommendations on how the study should be continued.
4. On your return to Washington, you will write a brief back-to-office report, giving your salient findings and drawing out the major implications of your work for the Bank's approach to proposed industrial sector work in the Caribbean country concentration study.

Cleared with and cc to Mr. Stevenson

cc: Messrs. R. Gulhati  
 D. Turnham  
 S. Chernick  
 C. Jayarajah

S. Kapur  
 F. Abbatte

F. Moore

## OFFICE MEMORANDUM

O.P. Research

TO: Mr. Ernest Stern

DATE: May 23, 1973

FROM: Pedro-Pablo Kuczynski *PKK*SUBJECT: Subcommittee Review of Research Proposals -  
Cocoa Study  
Economic Integration in West Africa  
Programming in Manufacturing

1. I chaired a Research Subcommittee meeting held on May 17, 1973 to review the above proposals. Messrs. de Vries (WAN), Moore (IDP) and Nowicki (P&B) joined me in the Subcommittee and Ms. Hughes (ECD), Messrs. Balassa (DRC), Duloy (DRC), Pursell (DRC), Stoutjesdijk (DRC), Tims (EPD), S. Singh (EPD) and Yeung (EPD) were also present for part or the whole of the meeting.

2. Comparative Analysis of Resource Allocation in Cocoa Production. This proposal arises from a commitment made to the Board by Mr. McNamara at the conclusion of the discussion of the Primary Exporters' Study. The commitment was to present the Board with two studies in depth to examine comparative advantage in cocoa and tea production. The work on cocoa is being organized by Mr. Yeung of the Commodity and Export Projections Division. The proposal would make possible bringing to the Bank this summer Profs. Pearson and Kofi (a Ghanaian teaching at Stanford) to work respectively on a methodology for calculating comparative advantage and on the analysis of existing statistical material relevant to the subject. The proposal is the second part of a two-part study: a first one, for which the proposed research is not considered necessary by the sponsors, would cover global supply and demand projections and would go to the Board before the Annual Meeting, and a second part, incorporating the results of the proposed research, would be completed by December 1973.

3. The panel and those present had a mixed reaction to the proposal: on the one hand, there is a clear commitment to undertake the proposed study and the methodology - not described in the proposal - is said to be an interesting one which could have applications in other areas, assuming that the statistical base exists. On the other hand, it was argued that it was ambitious to expect concrete quantitative results in the four countries included in the study (Ghana, Nigeria, Ivory Coast and Cameroon) for the small budget proposed, although the problem might, to some extent be overcome if the comparative analysis is confined to the two main producers. Another question is whether the proposed paper does not place too much emphasis on methodology and not enough on putting together what is already known, so that there might be a high risk of delay in the study. On balance, the panel is inclined to support the proposal, provided that (i) the relationship between the two parts of the study is made more explicit, and (ii) the nature of the methodological innovation is clarified. Also you may wish to consider whether this sort of research, which is basically done by our own staff with some input of consultants, ought to be financed by the Research Budget rather than the proposing Department itself.

4. Industrial Policies and Integration in Western Africa. This project would examine the economic prospects of Ghana, Ivory Coast, Senegal and Mali - especially of their industrial sectors - under various alternative policy assumptions, including various forms of economic integration. The comparative cost position of major industries and firms in the four countries will be studied. The study will place the four countries in their regional context, although by themselves three of them already account for a sizeable part of the regional GNP, excluding Nigeria and other countries at the eastern end of Western Africa. The panel believes that this is an important subject in an area on which there has been little research, and that it deserves strong support. Mr. Pursell explained that there was a strong possibility of collaborative research with local institutes in Senegal and the Ivory Coast; although there may be political sensitivities in the first case, concrete collaboration with local institutes should be welcomed and encouraged. One panel member felt that Mali should be dropped, but the proponents feel that the small extra work required for Mali is justified by the prospect of interesting data on a "least developed" country. The work is expected to be completed toward the end of calendar 1974.

5. Process Analysis Models of Selected West African Industries. Although the proposal has a different title, it consists of the preparation of models of industries of regional importance for West Africa (steel, forest products, electric power, and cement), along the pattern of previous DRC work on the East Africa fertilizer industry, the mechanical engineering industry in Korea, and the heavy electrical equipment industry in Mexico. In the case of West Africa, a few questions arise: (i) is process analysis necessary to judge the likely economic justification of a West African steel mill? (ii) are there sufficient data available to construct a viable model of each industry? and (iii) are the conclusions likely to be useful for policy decisions? The proponents of the project recognize that the methodology is the most important objective of the proposed research rather than immediate practical results. However, there is no doubt that the project represents a potentially important contribution to advancing the "state of the art". Such an objective ought to be part of the philosophy of the research program, and the panel endorses the proposal. Since methodology is the main aspect of the proposal, it is suggested that, despite its higher cost, the "new solution procedure" be included in the proposal to the Research Committee.

cc: Those present  
Research Committee Members

Mr. Warford (To be hand-carried by Mr. Rovani)

May 21, 1973

Harold R. Shipman



Yugoslavia Research Project

In going through my mail this morning I have noted a copy of a letter from Dr. Zonjic in which he expresses agreement with the conduct of a research project in the Ibar project area. I have noted that he wishes to tack on an addition to the project, which involves children in the area, to which I have no objection. However, his letter does not appear to me after a first reading to clearly associate the major objective of the project with absenteeism in industry. Since it will only be in the latter connection that we can reach any economic conclusions I hope that in any discussions you have concerning the design of the study you clearly emphasize that our major interest is in the industries and in the absenteeism aspect. While I would expect that we should be able to come up with some interesting information on improvement in children's health resulting from improved water supplies, my concern is that we will end up, as with all previous studies of this type, without any means of measuring the economic implications of this improvement. Dr. Zonjic needs to be fully aware of our prime interest and not permitted to get off track with a sacrifice of the major reason for the study.

HRS:lc

J. P. Rensch

Washington, May 18, 1973

Mr. C. de Troyer  
c/o PMWA  
B.P. 1850  
Immeuble Shell  
64 Avenue Lamblin  
Abidjan, Ivory Coast

Dear Mr. de Troyer,

Please receive enclosed my view on the fertilizer problem of cocoa after my last visit to I.F.C.C. headquarters in Bingerville. The two men doing the fertilizer research are: Messrs. Jadin and Snoeck; I discussed things with the last mentioned, he is more the man in the field.

It is easy to see the results growing rapidly every year into solid foundation of information for the recommendation of fertilizers. I think it is downright shortsighted not to take every opportunity to make the farmers use them. An important argument that has so far not been used is that with fertilizers, cocoa plantations will be in a much better state of vigor. Fertilizers are not only going to affect yields positively but also canopy condition and its regenerative power will be restored to capacity. I think that the regenerative ability of the canopy of plantations over 20 years old <sup>1/</sup> is impaired through soil exhaustion and specifically nitrogen. This, to my mind, predestines some part of a cocoa plantation to become a "capsid pocket", it is the place where a critical minimum level of nitrogen content is first reached or passed.

However, as yet there is insufficient information on the overall effect of fertilizers on yield to make its use obvious in Bank programs. I had a long talk with Messrs. Braudeau and Liaboef in Paris on April 24, and I want to comment on the following points in connection with the Cameroon program.

---

1/ In West Africa.

May 18, 1973

1. Spacing: Liaboef's recommendation on a spacing of 2.5 x 2.5 m is based on the results of an about 10 years old spacing trial in Nkoemvone, using Amazon material. This is a very interesting trial on general grounds because from this we could get factual information on the yielding power of Amazon, anyway the 2 1/2 x 2 1/2 m spacing plots give the highest yields. If you would be able to get yield figures from this trial I'd very much like to see them. My objection to the conclusion that 2 1/2 m spacing is the best, is that it does not take establishment into consideration, I prefer the 2.5 x 3 m spacing because it invites the farmer to grow hedges of foodcrops and plantains in the 3 m spaces. However I suppose a farmer could still do it on a 2 1/2 m spacing. You need more cocoa planting material though.

2. Permanent overhead shade: Hybrids perform really well under light (25%) or no shade conditions, i.e. permanent overhead shade. Therefore, in the case of new plantings in sec. forest all trees except the very biggest should be cut down. From what I remember is that in the envisaged areas, the forest is generally heavy, not surprising considering the good soils. Cutting down the forest is going to be a major expense and I am afraid that this will result in the recommendation of thinning the forest i.e. leaving too much permanent overhead shade. However, this is up to the appraisal mission to decide.

3. Temporary side shade is necessary to create the apparently required microclimate for the young cocoa plants to establish (the period from field planting to reaching the stage of integrated foliage or "closed canopy"). There is a very nasty Banana and Plantain pest in Cameroon, an insect that eats the heart out of young plantain suckers so they die. Now the plantain was thought to be the major side shade plant, and to my mind he's out now. I would recommend the planting of hedges of mixed food crops and forest regrowth (see 1) but preferably in 3 m spaces.

4. Fertilizers: Liaboef is thinking of using fertilizers for the plantains in the first two years. A good idea that I have also used in the proposed cocoa project in Togo, but on hedges of food farm interspersed with plantains.

That's all for now. Good luck with the project and kind regards,

Yours

H. Toxopeus

HToxopeus:ec

Mr. Montek Singh Ahluwalia, Development  
Research Center  
Frank J. Earwaker, GPDII, LAC

May 18, 1973

COLOMBIA: Draft Paper concerning Income Distribution in Colombia

1. I appreciate your giving me the opportunity to comment upon your draft. In my opinion it presents a balanced, accurate, and fair review of the subject. On the factual side, I have only a few minor comments:

- (a) On page 2 you say that the DANE survey covered approximately 10,000 households out of a total universe of 2.8 million. This last figure refers to houses and not households. The DANE survey estimates the total number of households (including households located in institutions such as hospitals, orphanages, etc.) to be 3.5 million.
- (b) The footnote on page 2 (which, by the way, has a number of typographic errors) should state that the summary description appears in an article written by Polibio Cordova. It is not an official DANE article as the footnote implies.
- (c) The Taylor estimate refers to 1961 and not 1962 as you state throughout the paper.
- (d) On page 12 the estimate of urban income distribution was made by Urrutia-Villalba and not Berry-Villalba.
- (e) There are some rounding discrepancies between your figures in table 1 and the figures quoted in table 1 of the annex to our economic report. This would not be worth mentioning in normal circumstances, but the circumstances surrounding this subject are not normal.

2. This leads me on to more substantive comments concerning additional points that might be included and others that may better be omitted.

- q (a) The Urrutia estimate of urban income distribution included an adjustment for urban unemployment. This was an important adjustment in that it affected the Gini coefficient by 5 points. It should therefore be mentioned prominently along with the three major adjustments you note on page 3.
- (b) Most of the CEDE surveys were made in 1967 at a time of exceptionally high unemployment, and this may have caused the Urrutia results to show a more than normally skewed income distribution. This observation was put to us by Dr. Barco and was included in the final version of Annex I to our economic report.



(c) I think that all reference to the Berry-Urrutia-Gline estimate should be dropped from the draft. This estimate was not published by Gline and it has the nature of a working paper which he himself implicitly withdrew. To mention it here, opens up an old sore without making any substantial contribution to the paper. If you should choose to retain this section, lines 8 to 11 of page 7 should in any case be eliminated together with the accompanying footnote. They do not fit in with the theme of your paper, which I understand to be a review of the primary sources of data on income distribution in Colombia.

3. Finally there is the issue of whether it would be appropriate to circulate the paper to the Board at the present time. As you know, an appendix on income distribution in Colombia has been included in our economic report which is due to come off the press shortly. I think this is an issue that should be discussed at a higher level.

cc: Messrs. Avramovic, Chief Economist, LAC  
Ross, Sr. Economist, LAC II  
Zenick, Division Chief, LAC II  
Hyde, CPDII, LAC

FJEarwalcer/dpb

May 18, 1973

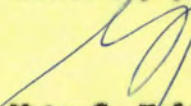
Mr. Dana Reynolds, President  
International Center for  
Dynamics of Development  
4201 South 31st Street, No. 616  
Arlington, Virginia 22206

Dear Mr. Reynolds:

Thank you very much for your invitation to the conference scheduled for May 29 and 30. Mr. Ballantine is on a mission and will only return for a few days during the time of the conference and then proceed to another mission.

Both he and myself will therefore have a heavy workload during that week. It appears therefore, unfortunately, impossible for us to attend your seminar on those dates.

Sincerely yours,



Mats G. Hultin  
Education Adviser &  
Acting Director  
Education Department

MGHultin/rcm

cc: Mr. Papa Nalla Fall

Mr. Raul Schkolnick

May 18, 1973

Yves Rovani Y.Rovani

Mission to Costa Rica - Terms of Reference

1. On May 28 you will arrive in San Jose, Costa Rica.
2. The object of your mission there is to discuss with I.C.E. your preliminary findings in relation to the case study.
3. You will review specially the following:
  - (i) switching cost allocation to local and L/D traffic;
  - (ii) review L/D switching costs as a function of traffic;
  - (iii) review the possible allocation of operating and maintenance costs between subscribers and traffic in the urban networks;
  - (iv) the relation between total traffic measured and taxable traffic;
  - (v) gather additional information on the rural links. Costs of lines in case where 5-channel equipment has been installed.
4. You will meet Dr. Fernando Naranjo to discuss the research proposal by the University, so that they may prepare a complete proposal.
5. You will return to Washington on June 11 and write a brief back-to-office report.

cc. and cleared with Messrs. Vasudevan, Warford  
cc. Blue book, files

RSchkolnick:mds

LI - W. H. O  
CCLE - Public Telecommunications Center  
CCOP - Liaison  
CCOP - Research

Mr. J. J. Warford

May 15, 1973

Y. Rovani

LONDON - Discussions with Consultants  
PARIS - Visit with Electricite de France  
GENEVA - Meetings at WHO and ITU  
LAUSANNE - Conference on Rural Water Supply  
PRISTINA - Research Project on Health Benefits of Water Supply  
Terms of Reference

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You should plan to arrive in London on May 20 for discussions with Messrs. Littlechild and Turvey, consultants employed by us on public utility pricing issues. You should also travel to Wye College, University of London to address graduate students on problems of pricing and project appraisal in public utilities. If possible you should arrange to meet Mr. Wellenius, a potential consultant for us in the telecommunications field in order to discuss recent research progress.

On May 22 you will join me in Paris where we will meet officials of Electricite de France, possibly Professor Masse and economic consultants in the field of telecommunications. We will then proceed to Geneva on May 24 where meetings will be held with WHO on matters relating to the co-operative program: you will also take the opportunity to discuss the "economic" guidelines for sector studies prepared by Mr. Carruthers. We will also visit Messrs. Butler, Croze and Chapuis of ITU in order to discuss further a possible joint approach to economic research in telecommunications.

On May 28 you will proceed alone to Lausanne, to participate in the IDRC (Ottawa) conference on Rural Water Supplies. At the end of the conference, you will join Mr. Grover in Dubrovnik, and travel to Pristina, where you will meet with officials of the Institute for Health Protection. The object of this visit is to encourage them to submit a research proposal to us on the impact on public health of a proposed water supply project. You should advise them on the kind of statistical and economic problems involved in conducting such a study and advise on ways to overcome them. You will return to the office on or about June 7.

JJWarford:pjk

*W.P. Research*  
*cc O.P. Commodities*

Mr. R. Picciotti, Project Asia Dept.

May 14, 1973

F. Lowenstein

Cotton: Research Suggestion - Forecasting of Supply, Demand and Prices

1. IBRD's projections of cotton prices for 1980 are U.S. \$0.30 (in current price levels) for Mexican, S.M.1-1/16 inch, cif Liverpool. There are developments which indicate that projected prices could be significantly higher. However, the situation is complicated and requires thorough economic research to develop sound forecasts of future prices.

Background

2. In the 1960's prices for cotton were depressed by a worldwide oversupply and prices were essentially determined by the U.S. price support system. The U.S. crop averaged only 9.7 million bales from 1966/67 to 1971/72. Because of these small U.S. crops, world stocks declined from 31.2 million bales in 1966 to 20.2 million in 1972. At the same time world consumption increased slowly but steadily, rising from 53.5 to 56.1 million bales.

3. As the supply declined, prices increased but the price rises did not become readily apparent until the 1970's. During the 1960's prices for Mexican, S.M.1-1/16 inches, cif Liverpool was in the range of U.S. \$0.28 to \$0.30 per pound. In 1970/71 this price rose to about U.S. \$0.33 per pound and then to U.S. \$0.38 per pound in 1971/72. During the current season, prices have increased sharply and are now U.S. \$.4675 per pound (April 1973).

4. The rise in prices during the current season occurred despite a larger U.S. cotton crop, brought on by larger acreage and higher yields. A sharp decline in the Chinese crop caused large exports from the U. S. and elsewhere to China and small beginning stocks provided inadequate reserve for substantial increases in demand.

5. The U.S. price support system consists of a basic loan to producers at 90% of world market prices in the preceding three years and an income payment to producers, from the U.S. treasury, of U.S. \$0.15 per pound. The U.S. is seriously considering reduction of its payments to cotton farmers and, perhaps, elimination of them over the next several years. If these payments are sharply reduced, future U.S. cotton crops may remain at about 10 to 11 million bales.

6. Such a development would restrict world supplies and cause prices to stay at relatively high levels, probably well above the U.S. \$0.30 prices to stay at relatively high levels, probably well above the \$0.30 now projected by IBRD. On the other hand higher prices would

stimulate substitution of manmade fiber for cotton, causing a counter downward pressure on cotton prices. The situation is further complicated by an apparent increase in basic demand for cotton which may be developing, because of consumer preference, in Europe, Japan and other industrialised countries. Higher prices could also cause larger output outside the U.S. by stimulating higher yields and larger acreage.

#### Proposed Research Project

7. Since cotton is important to several countries in the Asia Region, such as India and Pakistan,<sup>1/</sup> possible increases in its price level would be significant in planning of future projects. A research project to analyse probable future developments in the cotton industry and their effects on cotton prices would be most useful.

8. Such a project should consider the effects of changes in:

- (a) price support, supply and trade policies in major producing countries,
- (b) consumer preferences for various fibers in industrialised countries,
- (c) research developments for varieties and production, methodology,
- (d) utilization and new product developments, such as durable press technology for cotton which has been researched for about the past 20 years,
- (e) marketing methods for cotton and textiles,
- (f) processing technology, such as open and spinning, and
- (g) the interaction between supply, demand, and prices, and
- (h)
- (h) opportunity cost for cotton production in major producing countries.

#### Methodology

9. The methodology required for such a project probably would include:

- (a) collection of published data, much of which is available in the U.S., Europe, and Japan;
- (b) field surveys to evaluate future changes in methods of producing, processing and marketing cotton and in consumer attitudes;

<sup>1/</sup>Not to mention other regions including EMENA, Latin America and the Caribbean, Western Africa, and Eastern Africa.

- (c) statistical and econometric analyses to determine significant relationships affecting demand, supply, and prices;
- (d) discussions with officials of important cotton producing countries to assess the future direction of policy developments for cotton;
- (e) analysis of costs of producing cotton in important countries; and
- (f) analysis of prices for, and costs of, producing alternative crops.

10. As the project progressed, alterations in the methodology would be made, as needed, and access to a computer would be required.

Staffing, Timing and Cost

11. The staff for the project probably should include:

- (a) Agricultural Economist, Project Leader,
- (b) Agriculturalist or Agronomist, Cotton and Other Crops Production Specialist,
- (c) Cotton Marketing Specialist,
- (d) Economist, Demand Analysis,
- (e) Statistician, Statistical and Econometric Analyses,
- (f) Statistical clerks or research assistants,
- (g) Stenographic help.

12. The project would probably take two years to complete, but all of the staff suggested above would not be needed for the full period.

13. The estimated cost of the project is about \$250,000.

cc: R. Harua

Flouenstein:sam

FJ

le 14 mai 1973

Monsieur le Ministre,

Je suis heureux de vous informer que M. Goreux, Directeur adjoint du Centre de Recherches de la BIRD, se rendra en Côte d'Ivoire du 11 au 22 juin. Au cours de cette visite, M. Goreux présentera les conclusions provisoires d'une étude sur le développement à long terme de la Côte d'Ivoire. Cette étude a été conduite en collaboration avec les Services Ivoiriens, en particulier le Ministère du Plan, le Ministère de l'Agriculture, le Ministère de l'Education Nationale et l'ARSO.

Cette étude est présentée sous forme d'un système de modèles permettant de mesurer les effets d'une modification des politiques économiques sur l'économie ivoirienne. Au niveau le plus désagrégé sont un modèle de développement régional pour le Sud-Ouest, un modèle pour l'élevage et un modèle pour l'éducation. Au niveau le plus agrégé est un modèle central reflétant les interdépendances entre secteurs et permettant d'apprécier les implications de différentes politiques ayant trait, notamment, à la fiscalité, à l'emploi et au commerce extérieur.

Au cours de sa visite, M. Goreux prendra contact avec les divers services qui ont contribué à l'élaboration de cette étude. J'apprécierai toute l'aide que vous pourriez apporter à M. Goreux durant sa mission.

Veuillez agréer, Monsieur le Ministre, l'expression de ma haute considération.

Roger Chaufournier  
Vice-Président Régional  
Afrique de l'Ouest

Son Excellence  
Monsieur Konan Bédié  
Ministre de l'Economie  
et des Finances  
Abidjan, Côte d'Ivoire

cc: Mr. de la Renaudière  
cc: Mr. Gué

cc: Mr. Kochman (ED)

LMGoreux:sjb



C. P. Rowan

## OFFICE MEMORANDUM

TO: Files

DATE: May 10, 1973

FROM: <sup>RH</sup> Ralph Hofmeister, Economist, DED - P & HRSUBJECT: Public Works Study, Draft Budget of May 7, 1973, Interpretation of Overheads (RPO 275)

1. Harvard's DAS charges 5% "Management and Support" on the total of direct expenses. Harvard then makes a surcharge of 27% (23% until June 30, 1973) on DAS' overhead. Thus, the combined effective rates are:

through June 30, 1973:	(.05)	(1.23)	=	.0615
after June 30, 1973:	(.05)	(1.27)	=	.0635

2. To minimize Harvard's high overhead, DAS channels travel and foreign expenditures through the Institute for International Education (IIE). IIE's overhead is 5%, which is in addition to the above for DAS. Thus, for travel and foreign expenditures the total overhead is:

through June 30, 1973:	.05	+	.0615	=	.1115
after June 30, 1973:	.05	+	.0635	=	.1135

3. On everything else Harvard charges its overhead of 27% (23% until June 30) in addition to DAS' overhead (including the surcharge). Hence, for expenses in Cambridge the total overhead is:

through June 30, 1973:	.0615	+	.23	=	.2915
after June 30, 1973:	.0635	+	.27	=	.3335

4. Note that Retirement Benefits, Social Security, and Insurance, are charged directly; these categories are not included within overheads and overheads are charged on them.

5. In consistency with the draft budget for Phase I, overheads may be calculated in the above format:

## A. Travel and foreign expenditures:

Total:	\$28,145	at	.1131*	\$3,184
20% through June 30:	5,629	at	.1115	628
80% after June 30:	22,516	at	.1135	2,556

## B. Expenses in Cambridge:

Total:	\$78,315	at	.3251*	\$25,460
20% through June 30:	15,663	at	.2915	4,566
80% after June 30:	62,652	at	.3335	20,894

C. Total:	\$106,460	at	.2691*	\$28,644
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(\* Implied weighted average.)

To: Files

- 2 -

May 10, 1973

The total overhead, \$28,644, differs from the sum reported in the draft budget, \$28,655, due to rounding errors in the latter.

6. Similarly, the estimated pre-project costs and overhead are:

Expenses in Cambridge:

Total:	\$6,130	at	.2915	\$1,787
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RHofmeister:jmd

May 10, 1973

Mr. Felipe Herrero  
Jefe Direccion de Telecomunicaciones  
Instituto Costarricense de Electricidad  
Apartado 10032  
San Jose  
Costa Rica

Dear Ingeniero Herrero:

I am sending you, under separate cover, a few copies of the first progress report on the Costa Rica Telecommunications Case Study.

The purpose is to allow your staff to examine the computations and assumptions I've made, so that they can critically comment on this when I go there in my next trip, possibly in early June.

Because I have not distributed this paper in the Bank, nor have I discussed it with other staff here, this is really, for the time being, an entirely unofficial document, reflecting only my personal views.

Yours sincerely,

Raul Schkolnick  
Public Utilities Department

cc. and cleared with Messrs. *Rovani*, *Vasudevan*, *Warford*  
cc: Blue book and files

*Rsh.*  
RScholnick:mds

Mr. A. Karaosmanoglu , Country Programs Dept.I  
EMENA

May 10, 1973.

PH

Richard H. Frank (thru Mr. D. Haynes), Agriculture, EMENA

Research Proposal for Fresh Vegetables

1. Having only received the proposal on May 7, we have had only a brief opportunity to review its contents. However, we would like to offer the following comments.
2. We originally expressed interest in a research proposal consisting of a comprehensive export marketing study for fresh fruits and vegetables being produced in EMENA region. The research proposal put forth by Mr. Singh does not include fresh fruits nor is the outlined study sufficiently comprehensive. Fresh fruit exports are in fact more important to the EMENA countries than vegetable exports. Fruits presently being exported include citrus, apples, peaches, apricots, strawberries and grapes.
3. The research proposal postulates that the key problem of exporting countries is lack of knowledge of demand and formulates a general research outline on basic demand and prices. In fact, a great deal of work has been done by international and national organizations on the present and future demand for fruits and vegetables in Europe. The proposal mentions several of these sources; we feel there are others even more important such as the German Government, USDA, U.K. Commonwealth Secretariat, Michigan State University and the Agri-Business Group at Harvard University. The systematic collection and compilation of historical data as well as demand projections would be useful and needs to be done, but this alone would not meet our requirements.
4. In addition to demand data, we need more specific information on marketing and distribution channels as well as supply prospects. The degree of public versus private efforts, integration of marketing steps, the degree of packaging and processing and transport systems vary significantly within the EMENA countries. Information on trade barriers has been rightly included in the proposal but it is the execution and organization of fresh fruit and vegetable marketing in Europe that is the more crucial obstacle for most Middle Eastern and North African countries.
5. Finally, since the timeliness and quality requirements of markets vary a great deal, prospects must be related to specific market supply potential from the EMENA countries in order to identify a potentially viable operation for a given country. Information and analysis on these aspects is needed by both the EMENA countries and ourselves.

6. The proposal does not indicate the information collection method nor a specific staffing plan. We believe most of the demand data can be assembled by a marketing economist through a desk study while the other types of information can come only from marketing and production experts and will require substantial field work in market and production areas.

7. While we continue to feel an export marketing study for fruits and vegetables is urgently needed, we do not feel that the outlined approach will give us the information we require. We propose that the research proposal be revised in scope and staffing along the lines we suggest.

cc: Messrs. Wapenhans, Director, Projects Department, EMENA  
Finzi, Assistant to the Director  
French-Mullen, Agriculture, EMENA

RHFrank:nc

D.P. Research

May 9, 1973

Professor John Harris  
Department of Economics  
MIT  
Cambridge, Mass.

Dear Professor Harris:

I am writing to confirm the Bank's desire to establish a working relationship with the multi-disciplinary group of urban development specialists of which you are a member, based in Cambridge. As I remarked during our telephone conversation yesterday, we found your comments of March 21 on the Draft Terms of Reference for the Monitoring of Site and Services Projects extremely useful in our continuing effort to develop a research design for the field work to begin next spring. We would hope, therefore, to retain your group on an advisory basis.

At the present time, we would hope your group could perform five functions within the overall monitoring and evaluation effort:

1. advise on evaluation design;
2. advise during the evaluation fieldwork when requested;
3. participate in report-writing after three fieldwork efforts are completed;
4. participate in fieldwork personnel selection in an advisory capacity;
5. monitor field monitoring and evaluation reports.

While we understand that the comments on the Draft Terms of Reference represented a collective effort and, indeed the multi-disciplinary character of the group is one of its major attractions - we would hope that one person would act as the contact for relations with the Bank in the course of the work. In view of your joint position with the SPURS program and the Economics Department as well as your interest in the process of migration - which may become a subject of considerable discussion at a later time in the fieldwork - we would like to propose that you serve as the member of the consultative group responsible for relations with the Bank.

In order to discuss these arrangements in greater detail, as well as further define the overall design of the monitoring and evaluation effort, we propose that John Turner, and yourself come to Washington

Professor John Harris

- 2 -

May 9, 1973

for a day during the period from May 28 to June 8. I will contact you during the week of May 21-25 to set the date for these discussions. The Bank will meet your expense for your trip at that time.

Sincerely,

*MAC*

Michael A. Cohen  
Urban and Regional Economics Division  
Development Economics Department

MAC:ap

cc.: Messrs. Keare, Venkateswaran

## OFFICE MEMORANDUM

TO: Files DATE: May 8, 1973


FROM: Ravi Gulhati, Deputy Director, DED *RG*

SUBJECT: Claim of Country Concentration Program on Research Budget

1. Mr. Haq and I met with Mr. Ernest Stern to discuss the above subject on Monday, May 7, 1973.
  2. It was pointed out that if the Research Committee met only twice during FY74 as planned now, it was going to be very difficult to obtain speedy decisions on proposals related to the country concentration exercise on the Caribbean, Malaysia and the Cameroon. Therefore, it was essential either to devise some mechanism for decentralization or to provide for more frequent meetings of the Research Committee. Mr. Stern said that he would be prepared to call meetings of the Research Committee as and when required. He also said that in making decisions at the end of May, the Research Committee would keep in mind the claims of potential research projects.
  3. It was pointed out that not all research required in the context of country concentration will be project-specific. To finance such research, which may some times require contracting with local organizations, it will be necessary to establish a pool of funds contributed by various collaborating Bank Departments. Mr. Stern said that we could count on a contribution of \$5000 per country, that is \$15,000 in all for the three studies from the research budget.
- cc. Messrs. Chenery  
Stern  
Haq  
Stevenson  
Ray



WORLD BANK GROUP

ROUTING SLIP		DATE	12/12/73	
NAME			ROOM NO.	
Hme = Harris			67052	
APPROPRIATE DISPOSITION		NOTE AND RETURN		
APPROVAL		NOTE AND SEND ON		
COMMENT		PER OUR CONVERSATION		
FOR ACTION		PER YOUR REQUEST		
INFORMATION		PREPARE REPLY		
INITIAL		RECOMMENDATION		
NOTE AND FILE		SIGNATURE		
REMARKS				
 <p>To be filed in "Incentives Study Tunisia"</p>				
FROM		ROOM NO.	EXTENSION	
J.F. Bauer		N-508	5427	

# SETEC économie

15, QUAI PAUL DOUMER - 92 COURBEVOIE - TEL : 333-39-19+  
COURRIER : BP 26 - COURBEVOIE (92)

*C.P. M... ..*  
H. GRIMOND et G. SAIAS  
Anciens Élèves de l'École Polytechnique  
Ingénieurs des Ponts et Chaussées (e. d.)

COURBEVOIE, le 4 Mai 1973  
V/Réf.  
N/Réf. ECO 999 RoM/at  
AFFAIRE : PETRIN

Monsieur Jean-François BAUER  
Tourism Projects Department  
INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT  
1818 H Street,  
N.W. WASHINGTON D.C. 20433  
(U.S.A.)

Cher Monsieur BAUER,

Tout d'abord je vous demande de bien vouloir excuser le retard avec lequel je vous envoie le document concernant le modèle PETRIN, j'espère en tous cas que ce dernier répond à vos souhaits.

Vous trouverez ci-jointe une note complétant la brochure remise à Paris ainsi qu'un organigramme décrivant l'enchaînement des différents modules du modèle. Ces documents sont rédigés pour l'essentiel en français, je vous adresse par un tout prochain courrier leur équivalent en langue anglaise.

Les modifications que vous demandez sont possibles, je vous prierai cependant le moment venu, de bien vouloir me fournir le détail de ce qui est souhaité par votre département.

Je demeure à votre entière disposition pour vous fournir tout renseignement complémentaire, et vous prie de croire, cher Monsieur BAUER, à mes sentiments les meilleurs.

P.J.

*Mattatia*  
R. MATTATIA

Tourism Projects Department
Date Received: <u>MAY 9 1973</u>
Replied by: _____
Date Action Taken: _____

17:00 - 18:07

Tour Gamma "D"

58, quai de la Rapée

75583 - PARIS CEDEX 12

## 1. GENERALITES

Le modèle PETRIN, écrit en BASIC FORTRAN IV est conçu pour être exécuté sur un ordinateur IBM 1130 modèle 2 C (16 K mots de 16 bits, disk monitor system version 2) dont il occupe toute la mémoire disponible.

Le modèle est constitué en fait de deux ensembles identiques en ce qui concerne leur conception et leur structure mais traitant, l'un, l'aspect financier d'une opération hôtelière (avec édition du STATEMENT OF PROFIT AND LOSS, STATEMENT OF LIQUIDITIES, STATEMENT OF FINANCIAL POSITION, STATEMENT OF GOVERNMENT SITUATION) et l'autre, son aspect économique avec prise en compte des avantages et des retombées économiques du projet (édition du STATEMENT OF ECONOMIC ANALYSIS).

## 2. ORGANIGRAMME DU MODELE PETRIN

### 2.1 Organigramme financier

On trouvera ci-dessous un organigramme général du modèle PETRIN, les sorties explicitées se réfèrent à l'aspect financier de l'opération, l'organigramme de la partie économique étant pratiquement identique (à l'explicitation des sorties près).

Les différents modules du modèle sont numérotés et certains d'entre eux, les plus importants, font l'objet de commentaires au paragraphe suivant.

### 2.2 Commentaires sur les principaux modules

Les différents modules constituant le modèle ont été numérotés en fonction de leur introduction dans les calculs, certains d'entre eux font l'objet de commentaires particuliers.

#### 2.21 *Simulation (module 1)*

Le modèle permet (en option) de procéder à des simulations au sens de Monte Carlo. Certains paramètres du projet se voient affecter une loi de probabilité et pour chacun d'entre eux, on procède à un tirage aléatoire. La combinaison obtenue sert de base au développement des calculs et les résultats finaux (taux de rentabilité interne) sont stockés, ensuite on procède à un nouveau tirage.

(i) Paramètres en cause.

Le modèle actuel permet d'affecter des lois de probabilités aux paramètres suivants :

- coût du projet
- demande potentielle
- année de démarrage du projet
- demande satisfaite
- revenus d'exploitation
- et pour l'analyse économique, les coefficients multiplicateurs ou "shadow price".

Ces paramètres sont ceux choisis par Monsieur LETIA pour la conduite de son étude en AFGHANISTAN, il est possible, au cas où cela paraîtrait souhaitable d'en supprimer certains ou d'en ajouter d'autres.

(ii) Procédé de tirage aléatoire

Le tirage aléatoire se fait à partir de la subroutine IBM appelée "RANDU" version 1130.

(iii) Les lois de probabilités actuellement retenues sont les suivantes :

- loi triangulaire
- loi rectangulaire
- loi en escalier.

Ces lois nous ont paru suffisantes compte-tenu de leur utilisation pour l'étude concernant l'AFGHANISTAN, l'introduction de toute autre loi qui leur serait préférée, est a priori possible.

(iv) Les études de simulation conduites pour Monsieur LETIA ont été faites avec 200 tirages différents. Ce nombre a été choisi après analyse de la convergence de la loi de probabilité du taux de rentabilité.

Ce nombre est cependant paramétré jusqu'à un maximum actuel de 500 tirages. Cette limite peut également être augmentée si cela paraît intéressant (seule contrainte due aux périphériques utilisés).

(v) Sorties particulières

En fin de programme, le modèle fournit en sortie standard :

- le dessin automatique de la loi de probabilité de l'indicateur de rentabilité,
- les déciles de la loi de probabilité, sa moyenne, son écart-type.

Ces sorties se font par utilisation du traceur BENSON connecté à notre ordinateur 1130.

## 2.22 Tests de sensibilité (module 2)

Les tests de sensibilité permettent (en option) d'étudier l'influence de la variation d'un seul paramètre, les autres gardant leur valeur du cas de référence. Les paramètres pouvant faire l'objet de tels tests sont les mêmes que ceux servant à la simulation.

## 2.23 Lecture des paramètres d'entrée (module 3)

Les principales entrées du modèle sont les suivantes :

- demande potentielle annuelle,
- échéancier des investissements et réinvestissements par poste de dépenses,
- tarifs de l'hôtel et ratios permettant de calculer recettes annexes et dépenses.

## 2.24 Prise en compte de l'inflation (module 4)

Le module permet de calculer l'effet de l'inflation sur le coût du projet dans l'hypothèse où celui-ci est donné en monnaie constante ("real terms"). Ce modèle fournit en sortie l'état des investissements (STATEMENT OF INVESTMENTS).

## 2.25 Plan de financement (module 5)

Le module permet de déterminer le plan de financement : calcul des intérêts intercalaires (1), apport en capital propre, emprunts à long terme. Le module sera revu afin de permettre, ainsi qu'il est demandé, de prendre en compte cinq sources de financement avec des caractéristiques différentes.

## 2.26 Calcul des remboursements d'emprunts (module 6)

Le module déterminera pour chaque emprunt, l'échéancier des remboursements (intérêts et principal).

## 2.27 Amortissement (module 7)

L'amortissement de l'investissement (calculé séparément pour chacun des postes de dépenses (2) ) se fait linéairement. Ceci pourra être revu, le module remanié permettra de prendre en compte d'autres rythmes d'amortissement, par exemple l'amortissement dégressif.

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(1) Ces derniers, à la demande de Monsieur LETIA, ne sont pas capitalisés. Ce point pourrait éventuellement être revu.

(2) Dix postes définis par Monsieur LETIA.

## 2.28 *Ecrêtement de la demande (module 8)*

La demande potentielle en nuitées est calculée à partir du nombre annuel de touristes attendus et de leur durée de séjour. Deux catégories différentes de touristes sont prévues, chacune avec leur durée propre de séjour.

Cette demande potentielle est ensuite écrêtée en deux stades :

- (i) le premier tient compte de la répartition mensuelle de cette demande dans l'année et de la capacité d'accueil de l'hôtel. Les coefficients de saisonnalité qui permettent l'étalement de la demande peuvent varier tous les ans,
- (ii) le deuxième écrêtement consiste à imposer un taux d'occupation maximum inférieur à 100 %.

## 2.29 *Exploitation de l'hôtel (module 9)*

Le module 9 aborde l'exploitation de l'hôtel :

- (i) la vente des chambres se fait à 3 tarifs différents, la clientèle étant répartie en chambre "single", "double" ou "double faisant partie d'un groupe",
- (ii) les recettes de restauration et autres, ainsi que les dépenses sont calculées à partir d'une série de ratios \* (pourcentage des ventes chambres en général) tous paramétrés, et dont la valeur numérique peut donc être modifiée d'un projet à l'autre,
- (iii) le module calcule également le "gross" et le "net operating profits", ainsi que les impôts (calculés à un taux donné, mais paramétrés donc variable), les dividendes et l'affectation aux réserves (répartition en deux du "net operating profit").

La récupération des déficits d'exploitation éventuels se fait actuellement selon les règles fiscales afghanes. Ceci pourra facilement être modifié dans le sens qui paraîtra souhaitable. De même les modalités de répartition du bénéfice entre dividendes et réserves pourraient facilement être révisées.

Ce module fournit une sortie : le "STATEMENT OF PROFIT AND LOSS".

## 2.29bis *Bilans et état de trésorerie (module 10)*

Le module 10 fournit les états suivants :

STATEMENT OF LIQUIDITIES,  
STATEMENT OF FINANCIAL POSITION,  
STATEMENT OF GOVERNMENT SITUATION.

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\* Il s'agit des ratios définis par Monsieur LETIA.

### 2.29 ter Taux de rentabilité internes (module 11)

Le module 11 calcule successivement les taux de rentabilité à partir :

- (i) du "gross cash flow before interests, depreciation and tax "
- (ii) du "net cash flow before interests, depreciation and tax"

Remarque : C'est le taux de rentabilité calculé en (ii) qui figure en sortie des simulations.

### 2.3 Sortie du modèle de l'analyse économique

Tout ce qui précède concerne l'aspect financier du modèle. La partie économique est traitée de façon analogue, les relations entre les variables tenant compte en plus des coefficients de "shadow price" conformément à la méthode de calcul explicitée par Monsieur LETIA. Ces coefficients sont également paramétrés.

Le modèle "économique" fournit le STATEMENT OF ECONOMIC ANALYSIS.

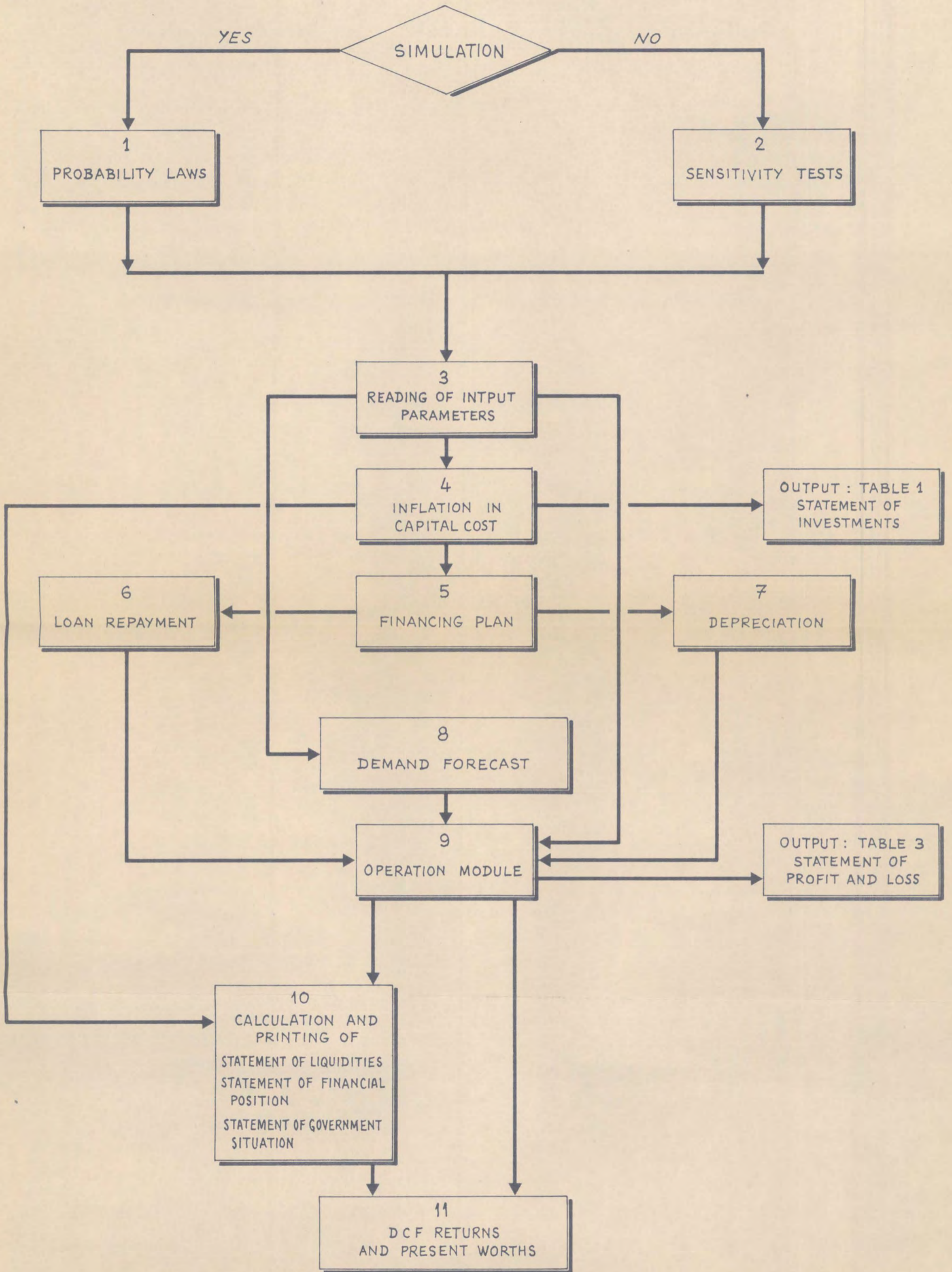
### 3.3. DOCUMENTS ACCOMPAGNANT PETRIN

La fourniture du modèle PETRIN consistera à remettre :

- (i) les listings complets (version 1130) des différents modules accompagnés des cartes perforées,
- (ii) une notice d'utilisation explicitant dans le détail tous les paramètres du modèle et la façon de les introduire,
- (iii) un exemple commenté accompagné des bordereaux de codification.



# PETRIN SYSTEM



## OFFICE MEMORANDUM

TO: File

DATE: May 3, 1973

FROM: John C. English J.C.E.

SUBJECT: Mexico Urban Survey Mission - Meeting, May 3, 1973

1. Present were: E. Lerdau, J. Holsen, I. Scott, D. Strombom,  
D. Keare and J. English.
2. The meeting was a general discussion of the possible focus for the above mission, tentatively scheduled for January 1974. Mr. Keare opened by indicating that we had read the yellow draft of the basic mission report and that it appeared to us that the major questions raised in that report pertinent to an urban mission appeared to be:
  - a. Government policies on power and freight rates and regulation, local taxes, public service levels and costs.
  - b. Trends in location of industry (or perhaps more broadly employment and economic activity) and the impact on these of Government Policies.
  - c. These might be viewed by focusing in on a small number of medium sized centers - possibly with some comparison of relatively expanding versus declining centers - trying to move the focus away from Mexico City itself.
3. Holsen suggested that since, in the view of some, the urban structure of Mexico is likely to change quite significantly in the future looking at past trends and causal factors may not be too appropriate.

Scott indicated that in his view the Mexicans appeared very much to see the urban problem as the Mexico City question, and it would be difficult to avoid this.
4. Lerdau said that the Bank's interest in the urban questions was twofold:
  - a. What sorts of things could be done to promote growth in other centers and what could be the Bank's role in this.
  - b. What policies and measures could be taken in the opposite direction to have some negative impact on the growth of Mexico City itself.

There are obviously a large number of factors related to the Mexico City question, many of which could not be addressed by a mission. For example, we already know that the price of water charged in Mexico City is well below its long run marginal cost. What we don't know is what the demand curve is, i.e. what would be the reaction to rises in price (although when rates had recently been doubled public reaction had been nil). Similar questions apply to other utilities.

5. Scott suggested that major questions which needed to be looked at were those of migration and industrial location. There have been a number of regionalized studies of Mexico and in fact CEPAL started another late last year. What might be done is to try and pull these together and provide some evaluation as a first stage in creating a framework for the mission.

He also felt that another topic area which might be given some emphasis was intra-urban problems. Here he particularly had in mind the question of journeys to work in Mexico City and its distributional aspects. Keare agreed and indicated such questions might arise in other sectors and cities.

6. Lerdaun was not so keen on the latter feeling that this would tend to lead the focus to "making Mexico City a better place to live in" and he did not feel the Mexicans needed any encouragement there.

He felt that the major focus should be on the secondary centers; which of these appear to be most developable; what are main constraints to growth; what could be done to alleviate the latter in terms of both investments and policy actions.

7. There was some concern as to how this would tie in with the lending program, the main element of which in the near future is to be a \$200 mil. Mexico City water loan. Strombom felt that this and the general Mexico City infrastructure question could not be overlooked.

8. Keare raised the question of mission leadership indicating that it was his view that efforts should be made to obtain someone of stature from outside and that to do this a decision should be made fairly soon. While there was general agreement that this would be desirable it was felt that a firmer idea of the focus of the mission was necessary before making any final decision on this.

9. It was agreed Messrs. Keare, English, Scott and Strombom would follow up in more detail on the possible lines of preparatory work for the mission.

JEnglish:bn

cc: Mr. D. H. Keare

S.P. Rensch

Mr. Jo Saxe

May 3, 1973

Wouter Tims

Development Center Research on Private Foreign Investment

1. The discussion paper on private foreign investment for the meeting which you will attend in Paris on May 15 and 16 leaves me with a number of questions. They relate to the description of the responsibilities of the Development Center in relation to the specific tasks outlined in this paper, the priority for their research in these areas, the design of such studies and the role of IBRD in their execution.
2. The Development Center has in the past made considerable contributions to the understanding of the problems of economic and social development, but I doubt whether they have any comparative advantage in this particular field of the financial flows, where one wants to get behind the character of a variety of private capital transactions, their motivation and their mutual linkages. There are various national research institutions which specialize in studies of this kind, usually financed by bankers' associations; it seems to me that one could get much quicker - and more solidly - to answers for such questions when their direct cooperation is sought. In a specialized area like this, where also data collection is a major difficulty, I doubt the wisdom of using scarce resources in the Development Center which, almost by nature, must have better things to do.
3. The research proposed here on linkages between different types of finance in the private sector is suggested to be done through sample interviews. Firstly, this may give some insights, but certainly not the complete picture of flows that we would like to have. Secondly, I wonder whether this is an effective way of dealing with the issue. Linkage between different types of private capital is something IFC and the DFC Departments ought to know a bit about, and should therefore be consulted at least. Maybe they could provide a significant contribution. Linkage between official and private flows is something our country desks know a good deal about, especially for the countries where there are consortia and consultative groups. Linkage between private foreign finance and local capital is a subject which any country economist with some degree of insight into his country can tell us about, and he may be doing so in his economic reports. I think there is a good case here for mining our own internal intelligence first, before initiating new research attempts.

cc: Mr. Hayes

OP. LIAISON  
✓ CC. OP. RESEARCH

Mr. E. Stern (through Mr. W. Tins)

May 2, 1973

Shansher Singh *SN*

Inflation and Commodity Prices -  
Preliminary Claim for Research Funds

A separate proposal requesting \$4,900 for the seminar on inflation, exchange rate changes and commodity prices, October 1-5, 1973, at Merton College, Oxford, has been submitted by the Commodities and Export Projections Division. Arrangements for the seminar as approved by you earlier are well advanced.

Following the experience with the Oxford Seminar, if it appeared useful to consult the academics and other people in North America, a similar seminar may be convened in the Bank. The cost of such a seminar with say, six invitees, would be about \$2,000.

It is expected that the discussion at Oxford will result in a number of concrete proposals designed to measure inter-relationships among a variety of variables including exchange rate changes, inflation and price movements of individual commodities. It is hoped that some of the proposed research would be picked up by other agencies and the Bank would need to finance only one piece of research. Concrete proposals on the subject cannot be submitted till after the seminar in October. It is tentatively estimated that the research project would cost about \$22,000. Accordingly, we recommend reserving \$24,000 of the research budget for FY74 to meet the costs of proposals to be submitted to you in the fall of this year. The figure excludes the cost of the Oxford seminar, but includes \$2,000 for a possible seminar in Washington.

cc: Mr. J. P. Hayes

May 2, 1973

Mr. Mario Piccagli  
8103 Meadowbrook Lane  
Chevy Chase  
Md. 20015

Dear Mario:

This is in connection with our conversations, in my office about a month ago and over the phone last week concerning the research project which we are starting on the Standards of Urban Electricity Distribution.

While the research project is proceeding, we believe it necessary to bring out some guidelines for our colleagues in the five Operating Regions of the Bank with respect to the assessment of standards of distribution when a project is being appraised. This is the modest purpose of the attached draft "Public Utility Note No.4. Standards of Urban Electricity Distribution".

I would be very pleased if you could give us informal comments at your earliest convenience. This paper is now being circulated internally to a review panel before being issued towards the end of the month. I will keep you posted on the research project itself as new developments take place.

With best wishes,

Yours sincerely,

Y. Rovani  
Director  
Public Utilities Department

Attachment

cc (without attachment) Messrs: Howell, Friedmann, Berrie  
Files

YRovani: jr  
IBRD

D.P. Research  
May 2, 1973

Mr. Felipe Herrero  
Jefe Direccion de Telecomunicaciones  
Instituto Costarricense de Electricidad  
Apartado 10032  
San Jose  
Costa Rica.

Dear Ingeniero Herrero:

First of all let me thank you very sincerely for the wonderful cooperation received from you and your staff in the telecommunications study.

An interim report on the case study is being prepared and I would very much like to discuss the findings included in this report with you and perhaps with other interested parties in your staff. I intend to visit San Jose again next June.

As a result of my last visit and the information then gathered, I have found new questions that require answers but most of which need not, I hope, any preliminary work.

I have made some preliminary computations and if time allows I will send to you copies of them so that perhaps your staff can critically study them before my visit. Most of the difficulties found relate to the allocation of switching costs to subscribers, urban traffic and inter-urban (long distance) traffic. Other problems are the relation between traffic curves as provided to me (by Ing. Garita) and taxable traffic, and the relation of metered pulses to urban and inter-urban traffic.

Because of the fact that rural telephones have been installed very recently the additional information that should be available in June (as compared with March), will be extremely useful.

The computations made by Ingeniero M. Soto for an hypothetical 5,000 lines exchange for different levels of traffic have been very useful to allocate switching between subscriber-related and traffic-related costs. If it would be possible for him to produce similar tables for, say, 0.1 erlangs per subscriber and different number of lines capacities (i.e. instead of keeping the number of lines constant and changing traffic, the reverse is to be done in this case), it would be very helpful.

As you know I have been in touch with Dr. Fernando Naranjo, Director of the Instituto de Investigaciones, Escuela de Ciencias Economicas y Sociales, on their possible participation in this study. I am telling Dr. Naranjo that he should address to you with regards the information you would be prepared to give him in connection with the study.

Hoping to see you soon, I remain

Yours sincerely,

Raul Schkolnick  
Public Utilities Dept.

cc: Messrs. Rovani, Vasudevan, Warford  
Blue book, Files

*RS*  
RScholnick: mds



*P. Kavalishvili*

## OFFICE MEMORANDUM

TO: Mr. E. Stoutjesdijk, Development Research Center DATE: May 2, 1973

FROM: Frederick T. Moore, Industrial Projects Department *FTM*SUBJECT: Your Research Proposal

I have signed the sheet in support of your research proposal, but thought it might be useful to add a few specific notes. As a result of discussions we have had in the past, it has been possible to identify several types of problems in the industrial field on which I believe you may be able to help improve our analytical capabilities; one is in specific project appraisals where appropriate models may be able to reveal various kinds of trade-offs that we now find laborious or impossible to do; the second is in some industry-wide programming decisions vis-a-vis preferred locations of new projects. We have discussed this with specific reference to pulp and paper where industrial projects department has had a cooperative program with FAO and the numbers are now beginning to emerge. A third area, somewhat more difficult to characterise properly, concerns programming decisions in industry in a specific country over time.

We are just at the beginning of the potential work in areas such as the ones described and I hope that the research program can continue to develop the bases and to cooperate with us on these problems.

FTMoore:cf

cc: Messrs. Bela Balassa  
Kalmanoff

*R. P. Rovecaah*  
May 1, 1973

Dr. Fernando Naranjo  
Director  
Instituto de Investigaciones  
Escuela de Ciencias Economicas y Sociales  
Universidad de Costa Rica  
San Jose  
Costa Rica

Dear Dr. Naranjo:

Thank you for your letter of April 16. As I suggested to you in our telephone conversation, a detailed research proposal will be required. I understand that you will now prepare a more detailed description of the topics, methodology and extent of the study, including an itemized cost.

I expect to be in San Jose in June but the exact date is still uncertain. I hope that by that time it will be possible to have a discussion so that matters can be clarified and a final research proposal can soon thereafter be prepared by you.

I suggest that you contact Ingeniero Felipe Herrero, Director of Telecommunications of ICE, with respect point (b) of your above mentioned letter. I am writing to him in this respect.

With best regards, I remain,

Yours sincerely,

Raul Schkolnick  
Public Utilities Dept.

cc: Messrs. Rovani, Vasudevan, Warford  
Blue book, files

*Rsh*  
RScholnick:mds



EL COLEGIO DE MEXICO

GUANAJUATO 125 MEXICO 7, D. F.

APARTADO POSTAL 7-977

*D.P. Research*

TELEFONO 5-84-11-22

April 30, 1973

Mr. E. K. Hawkins  
Chief, Population Studies Division  
International Bank for Reconstruction  
and Development  
1818 H Street, N. W.  
Washington, D. C. 20433

Dear Ted:

I am pleased to say that at long last we have finished the thoroughly revised and rewritten texts of the study on "Housing and Employment in Mexico". We are sending you under separate cover, by air express, two complete copies of the following:

- I. General Introduction, by V. L. Urquidi and A. García Rocha
- II. Christian Araud in collaboration with Santiago Rincón Gallardo: "Direct and indirect effects on employment of eight representative types of housing in Mexico"
- III. Gerard K. Boon: "Employment creation by technology levels and product variation in Mexican housing"
- IV. W. Paul Strassman: "Employment and financial alternatives in Mexican housing" and "The substitution of material or capital for labour in Mexican housing"

We believe these texts to be now quite clear in respect of methodology and results, and on the whole I think they are a very important contribution to the link between housing construction and direct and indirect employment. The OECD will do the final editing and publish these studies in its regular series.

El Colegio will now start on the Spanish translation of the whole text and will take account of any further revisions; we shall prepare a limited edition in the Spanish language.

With best wishes,

Victor L. Urquidi  
President



April 30, 1973

Mr. E. K. Hawkins  
Chief, Population Studies Division  
International Bank for Reconstruction  
and Development  
1815 M Street, N.W.  
Washington, D. C. 20433

Dear Ted:

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El Colegio will now start on the Spanish translation of the whole text and will take account of any further revisions; we shall prepare a limited edition in the Spanish language.

With best wishes,

Victor L. Urquidí  
President

1973 MAY 16 AM 8:52

RECORDED

Mr. Augusto Odone

DATE: April 27, 1973

Hans Pollan

Tunisia - Terms of Reference for Hotel Investment Incentive Study

This follows several conversations we had on this topic including one today. The principal comment at this stage is that from the viewpoint of the interest of the DFC Division, we would be happy if the country coverage of the study included Turkey. You gave me to understand that it may be feasible to substitute Turkey for Greece.

I also asked you the question regarding the contribution that the EMENA/DFC Division could now suitably provide in the future. You mentioned to me that you were currently reviewing the administrative arrangement for the study and that you would let me know your reply to my query.

cc: Mr. Glaessner  
Mr. Siebeck  
Mr. Bart

April 27, 1973

Mr. Eric Chetwynd  
Urban Development Staff  
Bureau for Technical Assistance  
Agency for International Development  
Room 2485  
Department of State  
Washington, D.C.

Dear Mr. Chetwynd:

As you requested during our telephone conversation yesterday, I am enclosing a current draft of our research proposal on urban land policies and land use control measures. As I mentioned, it is a very preliminary document in all respects. The Research Committee within the Bank has not yet made a judgment on the proposal, nor has Urban Projects Department, with whom we in the Urban and Regional Economics Division of the economic research staff work closely on these types of questions. More importantly, the choice of countries to visit will be subject to discussion and review within the Bank during the summer. These caveats taken into account, the document nevertheless does give a feel for what we consider to be the major issues needing urgent investigation and the ways in which the Bank might give guidance on promotion of rational urban land use.

I look forward to our being in touch again when Ms. Goodman completes her current study. In the meantime, if I can be of further help please let me know.

Yours truly,

Orville F. Grimes, Jr.  
Urban and Regional Economics Division  
Development Economics Department

Enclosure  
OFGGrimes:bn

*of*

O.P. Research

AIRMAIL

April 27, 1973

The Honorable  
Edwin Martin  
Chairman  
Development Assistance Committee  
Organization for Economic  
Cooperation & Development  
2, Rue Andre-Pascal  
Paris 16

Dear Ed:

I do not know whether you may have seen already the draft of the new round of detailed real income and price structure comparisons by Irving Kravis and associates under the auspices of the U.N., executed jointly by the staff of the U.N. Statistical Office and the University of Pennsylvania. In case you have not seen it, I am sending you a copy under separate cover. I think that you will find it interesting.

The work already done covers India, Kenya and Colombia, as well as the U.S.A., U.K., France, Germany, Italy, Japan and Hungary. We are now trying to help the U.N. Statistical Office and Kravis to mobilize the funds needed to extend the study to a further ten countries, at an estimated cost, from July, of \$168,000. The World Bank Research Committee approved a grant of \$70,000 towards this project for the current fiscal year, with a preliminary undertaking to provide the same amount for FY74. We now understand that there is a good prospect of obtaining \$30,000 - \$40,000 from the U.S. AID in June. After allowance for an estimated carryover of \$12,000, this leaves approximately \$46,000 - \$56,000 to be secured from other sources, in order to allow coverage of the ten additional countries. We are also now seeking an additional contribution by this Bank in the form of publication of the first instalment of the study as already completed.

We have approached a number of other agencies besides US AID in an effort to fill the financial gap, but do not yet know how much luck we are likely to have (see attached note; our contact in the U.K. is Bob Porter in the ODA). I am writing to you in case you might be able to suggest still other possible sources of funds which we have not thought of, or would be able to put in a word with any of the people who have already been approached. We also intend to explore the possibility of a contribution, possibly in the form of an input of labor, by the OECD Development Center.

I hope that you will agree that this is a good cause, and that you may be able to help us to secure the finance needed to cover ten additional countries, thus greatly increasing the interest and utility of the study.

Attachment (sep. cover)

J. P. Hayes

J. P. Hayes  
Director

Economic Analysis & Projections Department

JPH:fm

Mr. Lorne T. Sonley, Projects, Lat. Am. & Car.

April 26, 1973

A. C. Egbert, Agriculture

*AB.E*

Annex Kenya Report - The Land Resource - Its Use and Development Potential  
by F. Thornley

1. I think I understand what Mr. Thornley is trying to do in the part of this annex beginning on page 43. However, there may be some inconsistency in his analysis which will be explained later.

2. What I think he is trying to do is to relate the agricultural potential to the agricultural labor force and level of capital inputs (and technology employed) in order to determine the unachieved potential which exist in each district. This method of classification would be best illustrated by using a simple table with the following headings:

<u>Provinces and Districts</u>	<u>Ecological Zones</u>	<u>Population Density</u>	<u>Economic* Intensity</u>	<u>Income Level</u>
--------------------------------	-------------------------	---------------------------	----------------------------	---------------------

\*Item "Economic Intensity"<sup>1/</sup> would be more useful for analytical purposes if it could be further stratified by capital inputs per hectare and labor inputs per hectare.

From this table, districts in categories 1, 2, and 3 could be more easily discerned and understood; and also could be used to spare the reader from a lot of the verbage in the first part of the report.

3. In his recommendations concerning categories 1, 2, 3, I think he has the following ideas in mind:

- (a) Districts in category 1 are underdeveloped in relation to agricultural potential but cannot be developed presently because of institutional problems.
- (b) Districts in category 2 have a high potential for development but are presently underdeveloped.
- (c) Districts in category 3 are presently developed relative to their potential.

Thornley concludes, therefore, that the development effort should take place in category 2 districts. This I cannot disagree with if his classification and evaluation is correct.

<sup>1/</sup> I like the term "intensity" better than activity. To me it means relative level of resource inputs.



To: Mr. Lorne T. Sonley

- 2 -

April 26, 1973

4. What appears to be an inconsistency with this analysis is on page 45. Here, he has a brief table which relates present population by province to income potentials. The provinces of Western, Nynza, and Eastern - he classifies as in category 2 but in the table he indicates that the present population is greater than the population which could obtain a satisfactory income level, i.e., K70, ~~this~~, it seems that there would have to be migration out of these provinces for the remaining population to obtain a satisfactory income levels. This point I do not find mentioned in the annex. I presume that the income potentials in this table could be achieved only after the recommendations of paragraphs 123-133 are carried out.

5. Finally, I think Thornley's analysis should be enhanced by using the simple expository device of the production function. This points out the need for teaming up of economists and other specialists in making development recommendations. Section VII - Summary of Proposals and Recommendations - includes only specific minor recommendations and does not include the main thrust of the report which is made in paragraphs 123-133.

6. I will be happy to discuss any of these points if you feel they are obscure.

ACEgbert:hrv

Those Listed

April 25, 1973

RH  
Ralph Hofmeister, Economist, P & HR - DED

Public Works Research Project

As indicated in my memo of April 10, I am circulating herewith a draft terms of reference for the Harvard Public Works Project. The attached is as short as Mr. Thomas' draft is long; perhaps the latter should be reviewed along with my draft as some combination of the two might be appropriate.

I am especially interested in your reactions to the research objectives and in your views on the appropriate scope of the proposed first phase of research.

For discussion of the project terms of reference, I propose a meeting at 3:00 p.m., Monday, April 30, in Room D-556. To know whom to expect, I would appreciate a call on extension 3657.

RHofmeister:jmd

- c.c: Messrs. Stern
- Stevenson
- Gulhati
- Hawkins
- Turnham
- Churchill
- Daloy
- Keare
- Reutlinger
- Yenal
- Yudelman

Attachment: Draft Terms of Reference, Harvard Public Works Study.

DRAFT  
R. Hofmeister:jmd  
April 25, 1973

DRAFT TERMS OF REFERENCE  
HARVARD PUBLIC WORKS STUDY

1. Definition:

For the purpose of this research project, a "Public Works Program" (PWP) is defined as activities undertaken by a government with the simultaneous objectives:

- (a) to increase employment and income in the poorest groups,  
and
- (b) to create useful physical assets.

The relative weights on the objectives of employment generation and of asset creation differ between programs. At one end of the spectrum, a PWP approaches the pure relief program which neglects asset creation; at the other, a PWP is distinguished from a construction program (or projects) without a specific employment objective. These limits may be refined during the course of the study, not as a definitional end in itself, but in the context of evaluating the advantages of a PWP relative to single-purpose programs or projects.

2. Objectives:

As a general objective of the study, these policy oriented questions are to be answered:

- (a) Under what circumstances can a PWP be a viable instrument for reducing unemployment and increasing the income of the poor?
- (b) What organizational, administrative, and support measures can increase the effectiveness of a PWP?

A number of specific research objectives are intermediate means to address the above policy questions:

2.1 To evaluate the performance of PWP's in achieving the program objectives.

(a) Employment and income: the quantity and structure of employment generated and that related to underutilized manpower; the income distribution effects of factor payments in the PWP and of the benefits flowing from the assets created.

(b) Asset creation: the social benefits of the assets relative to the social costs of the program.

2.2 To understand the political motivations which have influenced the design of PWP's and the political responses which have led to in-process modifications of programs.

2.3 To identify the most promising organizational, administrative, and financial arrangements, including possible decentralization and local participation.

2.4 To assess the macroeconomic implications of a substantial PWP, the most important being the demand impact and the fiscal resource problem.

2.5 To appraise the potential problems implicit in large-scale and long-term PWP's which would be less serious or not arise in a smaller and shorter effort.

2.6 To evaluate the potential for urban PWP's; to identify the differences from the more common rural-based program, especially the implications for migration; and to explore the potential of PWP as an instrument for promoting intermediate growth centers.

2.7 To examine the potential role for external assistance in supporting a PWP, including the scale and mode (e.g., food aid) of assistance.

2.8 To explore the interactions between a PWP and other public policies and programs.

2.9 To identify criteria for ex ante appraisal and ex post evaluation of PWP.

(There is considerable over-lap among these objectives. The study and resulting reports may not be structured after the above listing.)

### 3. Organization of the Project:

The project is organized in two phases. The first phase will consist of a comparative survey of significant PWP's in low income countries. The report of the first phase will include a comparative analysis of these programs and an analytical framework, specific research hypotheses, and a plan of operations for the second phase.

The draft report of Phase I will be submitted by December 29, 1973 and the final version by February 28, 1974; an agreement to proceed with the second phase will be reached within two months after submission of the draft report including the research plan for the second phase. Subject to minor modifications in plans, the second phase research will begin March 1, 1974, and the report will be submitted in draft by November 29, 1974 and in final form by January 31, 1975.

The second phase will be more closely focused and intensive than the first, both in country coverage and in research issues. The minimum scale would be a continuation of the three-man team with supporting consultants and research assistants. At this time a series of intensive country studies with the collaboration of research institutes in the countries being studied seems desirable; this program of work would require a substantial expenditure over that provided in the initial financing. Providing there is agreement between the Harvard research team and the Bank on the program of work for Phase II, additional financial support will be provided from the Bank or other sources.

4. Research Methodology:

The first phase survey will include all significant PWPs in low income countries since World War II. It is expected that a taxonomy of these PWPs will be prepared; dimensions of the classification will include:

- (a) program objectives;
- (b) economic context of program;
- (c) political context of program;
- (d) organizational and administrative arrangements;
- (e) role of external support; and
- (f) program achievements.

The quality and comparability of data and the very limited degrees of freedom will probably preclude formal statistical analysis. Particular programs may merit attention as especially informative case studies. Sources will include the literature analyzing country programs and existing data on or pertaining to the programs in the countries of the programs.

The coverage and emphases of the comparative survey will be guided by the above research objectives. It is recognized that definitive analyses cannot be completed in the time allowed for the survey phase. The range of issues involved in FWP will be explored; conclusions will be drawn where justified on the basis of extensive research; and research priorities and methodologies will be established for the subsequent intensive research.

O.P. Liaison  
I.C.P. Technology  
OFFICE MEMORANDUM

TO: Files  
FROM: L. Peter Chatenay  
SUBJECT: Technnology Seminar - February 28, 1973

DATE: April 24, 1973

A seminar on Industry Technology for LDCs was held in the Board Room from 09:30 to 13:45 at the above date. It was organized by Mr. Weiss, the Science and Technology Adviser in the Office of the Vice President for Development Policy. The speakers included a distinguished economist and three of the small community of experts in the field of technology for development. It was the sequel to a shorter management seminar held for Mr. McNamara and top Bank management on the 26th. The speakers spent the intervening time in discussions with the members of the Bank staff. The following summary was originally written for Bank Notes and is being distributed at the request of Mr. Weiss.\*

## 1. The speakers agreed that:

(a) The international flow of technological knowledge is as important to development as the financial and economic flows.

(b) The technology policies in the developing countries are but one facet of overall developmental policy.

(c) Appropriate technology is defined essentially as technology conducive to development.

2. Minister Choi Hyung-Sup, Minister of Science and Technology of the Republic of Korea and former director of the Korean Institute of Science and Technology (KIST), said that it was necessary to use science and technology to break through the barriers of underdevelopment. A nation's economic development plan conditioned the application of science and technology. In Korea, for instance, the third plan aimed at striking a better balance between agricultural and industrial development.

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\* Extensive background material was made available to those who attended this management seminar. The main general background paper is attached to this memo. Extra copies of the others are available from Mr. Weiss. They include: material on technology policy in Korea; an article describing the Central Leather Research Institute in Madras; lectures by one of the speakers (Dr. Nayudamma) on technology transfer; an article on agricultural machinery "appropriate" to developing countries; an article on the economic determinants of the choice of technology by another speaker (Prof. Ranis); and descriptive material on the history and accomplishments of the Korean Institute of Science and Technology.



The plan for scientific and technological development in Korea was described as an integral part of this plan. Since 1970, the Korean government has been promoting the "New Village Movement" for rural development and has given it the highest national priority. Contributions from the science and technology sector to the movement include general technology diffusion in order to improve the rural living environment, such as booklets containing instructions on how to make very cheap kitchens and how to build drainage systems, and special new skills (e.g. planting cheap nut trees) in order to increase rural income.

5. KIST started as an autonomous contract research organization using a multidisciplinary approach and strict cost accounting systems. It offers general engineering services to industry and assistance in the adaptation of imported technology to local needs. Thirty percent of its budget is set aside for basic research. All its schemes are meant to have a demonstration effect. The Minister emphasized that the impact of institutions such as KIST could be measured by the degree of their political support from the government, by the closeness of their linkage between their activities and the national economic development plan, and by their success in attracting contracts for their services from industry and from government.

6. The autonomous character of KIST gives stability of employment and adequate remuneration to staff - both important considerations. But staff returning from abroad were also in a position to assess the results of their work and its relevance to the country's development. These were elements of even greater weight for the retention of staff.

7. Professor Ranis of Yale made a series of points based on his study of industrial and technological development in countries such as Japan, the Philippines, Indonesia and Mexico. He said government's role was essentially to inform the users of science and technology about existing alternatives, and that a good economic climate was an essential ingredient for the development of science and technology. International aid to date has been biased in favor of capital intensive investments. What was needed now was to consider less the needs for "appropriate technology and to concentrate more on determining the types of goods which the domestic market would be seeking. Professor Ranis felt that decentralization was important to achieve balanced growth. Rural electrification, better transportation, and tax incentives are some of the tools to bring out the entrepreneurship which exists throughout a country but has few opportunities to develop in rural areas. Among the measures IBRD could promote, he cited support of small-scale industry, assistance in widening the availability of patents, specific support of Research and Development, and

general measures to improve the competitive climate.

8. In answer to several questions, Professor Ranis said that the advantages of economies of scale were often overstated in arguing against rural development and in downplaying the benefits from subcontracting. Japan had shown how to bring small-scale industry located in the countryside into the mainstream of industrial development even before electrification had reached the rural areas. The initial need was to establish the necessary technological infrastructure; that being done, and local entrepreneurs having been given their start with protective fiscal and other measures, the temperature in the "hothouse" could be lowered and a balance between domestic production and imports would be reached. Dissemination of information not only on technological matters but also on the availability of credit - the opening of branch offices of credit institutions, for example - was required along with sound credit policies.

9. Dr. Y. Nayudamma, Director of India's Council for Scientific and Industrial Research, said in essence that the role of the 44 institutions and laboratories which CSIR controls or assists is to generate new technology and to promote the transfer and use of technology not only from abroad but also within India. The forms of ownership in his country covered a wide range, but without competition the incentive for change was small. There could be, he said, no sound Research and Development without a clear definition of the goals or without the machinery to disseminate results and assess their application. It was important to look at alternative technologies and to concentrate on research relevant to the goals set out initially. Dr. Nayudamma spoke about the achievements of the Central Leather Research Institute in Madras not only in terms of increased exports (from \$30 million to \$200 million in a few years and "guaranteed" to go up to \$300 million in two years or so) but also for the impact of change in that industry on the lives of the underprivileged.

10. In answer to questions about the role of the Bank in science and technology, Dr. Nayudamma said that the Bank should, where appropriate, use local research institutes as advisers for projects it finances and should consider the advantages of locating industrial estates around a research centre. It should help set up design and development centers as well as entities providing general engineering services to small and medium scale industry. It should also assist in the launching of technology promotion corporations.

11. Dr. Amir Khan, Head of the Agricultural Engineering Department, International Rice Research Institute (IRRI), in Manila, described IRRI's program in agricultural machinery

development and industrial extension. Before they launched the program, Khan's group reviewed the status of agricultural mechanization in Asia in 1967. The conclusions from their review were the following:

- i. Efforts in the previous 20-25 years in Asia had focused mainly on the utilization of agricultural machinery developed abroad and very few attempts were made to develop technology suitable to local conditions.
- ii. Western and Japanese technologies did not suit small farmers in the regions.
- iii. Neither the public sector nor the multinational corporations were undertaking development activities in the direction.
- iv. Mechanization with small equipment would not replace labor. Rice production in Japan, for example, was highly mechanized (3hp/ha) as well as most the labor intensive in Asia.

12. In machinery development, the group of Dr. Khan has been dealing with product design suitable to farms between two to ten hectares. Production technologies currently available in the Philippines have been adopted. Manufacturers of IRRI products have gotten involved usually in the early stage of the program and IRRI has provided engineering and other services to them. With the use of slides, Dr. Khan showed various types of equipment designed by IRRI which are better adapted to the conditions of rice cultivation in developing Asia, than are the sophisticated machines from Japan or Europe. The production rate for IRRI's Landmaster tractor is now 300 units per month at half of the cost of the imported tractor, 1,000 units of which were imported last year.

13. Dr. Khan's message was, in effect, that the Bank should pay more attention to questions of indigenous industrial production appropriate for the development which its loans brought about, and that it should have more in-house expertise to deal with the choice and production of indigenous equipment.

About 100 people attended the conference at one time or another. Average attendance at any one time was about 60: about thirty remained till the end of the seminar.

Attachment:

April 24, 1973

Mr. Nikos Georgoulas  
President  
IMIMCO Corporation S.A.  
51, Marasli Street, Kolonaki  
Athens, Greece

Dear Nick,

At this rate it will be years before we get together on anything specific. First, there is the substantial delay on each exchange of correspondence; second, we still have a way to go before we are agreed on what we might get together on and how.

We have two principal reactions to your letter of 12th February and the attachments. First, we are impressed with the quality of your personnel as evidenced by the c.v. of Messrs. Antoniou and Markopoulou -- not to mention what we already knew about Mr. Georgoulas. Second, we do not presently contemplate a major research effort on either a public lands inventory or the spatial layout of metropolitan areas in the immediate future (i.e., by early next year).

Both of these subjects are matters of interest to us; however, our present thinking is that we need considerably more information and experience before we have sufficiently precise ideas as to what it is we want to know and how we should go about finding it out; and that, therefore, we will tend for awhile to "grope" towards an approach to them along two general lines of activity. The first is our research into urban land use practices and policies. (See the enclosed memorandum of March 26, 1973 by Orville Grimes on "Preliminary Description of Research Projects to be Prepared: Urban Land Policies.") The second (and more promising in the short run) is our program of what we presently call urban survey missions. (See the enclosed memorandum of February 13, 1973 by Orville Grimes on "Urban Sector Missions: Scope and Method.") We plan to conduct four of these annually and have already conducted one and are planning two others for summer. The report on the first of these (on Zaire) will be ready shortly, and I will send you a copy. In all of these, land matters must and are being treated. Finally, both aspects must be viewed against the background of our more precise approach to our research program (See Urban and Regional Economics Division: Summary of Research Program, April 12, 1973.)

I think the best way for you to become involved with our work program -- and eventually on a research project dealing with land use (including cadastral and/or spatial layout aspects) -- will be for you (either you

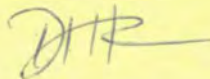
personally or one of your staff) to become involved in one or more of our urban survey missions. In this way you will, I think, place yourself in a better position to define the more critical problems which confront the developing countries and their cities in the context of the Bank's effort to assist them in dealing with them, as well as to assess feasible means of evaluating these problems and develop approaches to solving them. As such, you will be placing yourself in a better position to help us develop an operationally useful research project or program.

These missions will normally involve something on the order of eleven weeks of each staff member's or consultant's time: one week, on average, in preparation (as much of this will be done by research assistants); four weeks in the field; and six weeks in Washington preparing the report. Two of the four missions scheduled for FY 74 appear fully staffed as of the moment; however, we have missions scheduled for the Philippines in October/November 1973 and Egypt in March/April 1974, both of which will call for persons with the type of expertise you are able to offer.

If you would like us to consider using IMIMCO staff on either or both of these missions, please let me know at once. At the same time, or alternatively if you wish, you can take steps to become more familiar with our developing research on land matters. I suppose we would have to wait until your visit in late August to take significant strides in this direction. I am of course looking forward to your visit, and you should also plan to spend a fair amount of time with Orv Grimes and perhaps others on the staff.

With best regards,

Sincerely,



Douglas H. Keare, Chief  
Urban and Regional Economics Division

Attachments

DHKeare/gc

Messrs. M. Yudelman and S. Reutlinger

April 24, 1973

Paul Duane *HA*

Mr. King's Proposal for Rural Development Research.

The attached letter from Timothy King contains several points concerning the immediate and long-term problems of promoting a more effective drought prone areas programme in India and Bank participation in it. The point which he feels should come to your attention (see top of page 3 and final paragraph) is this: if a program like the DPAP is to benefit the "submerged 40%" significantly, i.e., to the extent of raising their incomes to some appropriate minimum level, what expenditure levels are required and would the answer lead us to question our existing strategy. This forms the focus of a suggested research topic "Investment Priorities in Backward Agricultural Districts" which King feels might deserve submission to the Research Committee.

Let me add some support for this suggestion. My experience so far with the DPAP tells me that it is extremely important to define carefully (a) the nature of the population which the program is meant to benefit; (b) the extent of improvement of living standards intended and related total program cost; and (c) the ability of various project components like roads, dug wells, tubewells, livestock development, etc., to reach these target groups and satisfy the distributional objectives of the program. With hindsight, I think the chief difficulties which we have had so far with the DPAP derive from the vague generality with which its distributional objectives have been stated, and the lack of attention given by the GOI to defining the supporting roles which might be expected of land acquisition and redistribution in areas benefiting directly from government investment. In the absence of specific guidelines in these matters, I feel the Bank's DPAP mission had to spend too much time forming judgments about what other distributional policies might be introduced to make some of the DPAP project components distributionally effective. Some degree of ad hocism of this sort is probably inevitable, but I am sure that in the future we could anticipate such problems better, especially if the groundwork is prepared broadly along the lines suggested by Mr. King.

Mr. King's research proposal need be only a short-term study to develop the arithmetic of what it costs to meet varying distributional objectives under a DPAP-like program, with different assumptions about the degree of attendant land distribution or distribution of other factors such as water. In my view, the results of this arithmetic would help governments and ourselves to state more clearly the problems of reaching the poor and hence to decide on what are the key policy issues which will determine the effectiveness of such programs.

cc: Mrs. Dharma Kumar  
Messrs. Darnell, Hendry, King, Brown

April 23, 1973

Mr. W. E. Vickery  
University of Ghana  
Department of Economics  
Legon, Accra  
Ghana

Dear Ed:

Thank you for your letter of March 31. We have reviewed your research proposal on village development projects and have noted that you now expect that project to require some four to six man months of your time beyond August, assuming that the project is approved for funding by the International Development Research Center. We have considered your request either (i) to incorporate completion of that project in your duties for the Bank, if you assume your post here in September as we had discussed; or, (ii) to postpone assumption of your post with the Bank until that project is completed, which you would now expect to be sometime in 1974.

We find your research proposal to be both competently set out and worthwhile and under these circumstances we are prepared to accept the first alternative stated above, subject to the qualifications noted below. Alternative (ii) would be unacceptable.

At Mr. McNamara's request, we are expanding our program of studies on the substitution of labor and equipment in civil construction. The enclosed memorandum of February 1 from Mr. Baum to Mr. McNamara outlines the expanded program. The final report on Phase II of this study, which we expect to complete by the end of May, will give a more detailed statement of the proposed Phase III program, and we shall be sending you a copy of that report as soon as it is completed. Under these circumstances, as we discussed with you in London, we must assign you to a full-time role in this study, particularly during the initial stages of Phase III, which will be during the period next September-December. During this period we expect to assemble a group of outstanding individuals from several disciplines, including industrial and mechanical as well as civil engineering and economics, to assist in planning and setting up of the study. I am sure that you would not wish to miss out on this most interesting phase of the work, and in any case, it is essential from our viewpoint that you should be involved full time in this work during this period.

Mr. W. E. Vickery

- 2 -

April 23, 1973

Subsequent to this phase of the work and subject to meeting such other priority matters as may arise, it should be possible to program up to a maximum of fifty percent of your time, to a total of six man-months, for completion of your study on village development. We view this project favorably and recognize it to be in the Bank's interests that it should be completed promptly. At the same time we would expect you to recognize the constraints we face in meeting our responsibilities.

If your proposal should not be approved by the IDRC, there is a possibility that it might be funded by the Bank Research Committee. However, this would almost certainly involve some delays in obtaining approval, and it is by no means certain that the project, however worthwhile, would withstand the very rigorous test of priorities which must be applied to Bank funded research: requests to the Research Committee usually run two or three times available funds and many worthwhile projects are regularly turned down. However, it is a possibility which we would be prepared to support if necessary.


We trust that these terms will be acceptable to you, and we request that you confirm your acceptance by cable. We are looking forward to having you with us and feel sure that the experience will prove mutually rewarding.

Sincerely yours,

Anthony Churchill  
Division Chief  
Research Division  
Transportation Department

P.S. I have discussed these options with Kim Jaycox and he agrees that we must give priority to your coming on board at the earliest possible date, and that we will do everything possible to accommodate your research project within this constraint.

Enclosure

AChurchill:p hm 

cc: Mrs. F. Stone



Mr. Ernest Stern (thru Mr. Ravi Gulhati) *REL*

April 20, 1973

Douglas H. Keare *DHK*

FY 73 Research Budget (Upper Limits)

I am aware that I have taken considerable time to respond to your OM of March 12 on this subject.

The delay has been occasioned by shortcomings in present procedures for recording obligations and disbursements and the resulting difficulty in obtaining up-to-date information. It is not "disruptive," however, as I find that we can live within the prescribed limits -- albeit only by adjusting between projects.

The situation is this.

You have indicated the following ceilings:

RPO240	\$ 8,100)	
RPO241	9,400)	or a total of \$38,000.
RPO270	20,500)	

We can live with the following ceilings:

RPO240	\$ 400 )	
RPO241	3,500 )	or a total of \$38,600
RPO270	34,700(*) )	

\* The increase in this figure is explained in the attached memorandum to you and Ravi Gulhati.

I would simply like to point out that making this overall downward adjustment will entail postponing payments of \$6,000 and \$7,500 respectively to consultants who will have fulfilled the terms of their contracts under RPO241 and RPO240. This is acceptable to the consultants in question; however, it is undesirable to carry these obligations forward to FY 74 if the research budget turns out not to be as tight as you presently expect. Thus, I simply want you to know at this stage that we will be in a position to disburse an additional \$13,500 -- or any part thereof -- during FY 73 if the situation makes this possible.

Attachment

cc: Messrs. Stevenson  
Hawkins  
Ray  
Busz

DHKeare/gc

Messrs. Ernest Stern and Ravi Gulhati

April 20, 1973

Douglas H. Keare

RPO270: Urban Public Finance (Budget for FY 73 and FY 74)

The original budget for this project estimated expenditures of \$27,600 in FY 73 and \$21,200 in FY 74--or a total of \$48,800 over the two-year period. The former figure (rounded to \$28,000) was approved for FY 73, but no allocation was made for FY 74 at the September 1972 meeting of the Research Committee.

We have now assessed the requirements for this project in the light of final settlement on the cities/countries to be included in the study and reassessments of the inputs necessary to bring the study to a successful conclusion. These revised estimates are presented in attached Table I and summarized on the following page; in brief, they call for estimated expenditures of \$34,657 in FY 73 and \$27,761 in FY 74 -- or a total of \$62,418.

The increase in estimated total costs arises entirely from a re-assessment of supporting assistance required. During preparation and discussion of the research design for the project, we started out with a desire to cover 12 cities. The Research Sub-committee was skeptical of our ability to cover this many cities adequately and suggested that 4 or 5 might be a more appropriate number. We have in the end decided on a total of 8, and have already collected information on 5 of these. These 8 cities can be handled adequately within the confines of the major resources (i.e., the time of the principal consultant, Roy Bahl, young professionals assigned to the project and myself, as well as travel funds) available for the project. What we need, however, is additional research assistance support in the form of four additional months of Francine Bougeon-Maassen's time, plus temporary research assistance and some typing assistance during June - September when we will be processing most of the data and generating preliminary monographs on the 8 cities. There is a small additional item for travel within the U.S., which is almost precisely offset by net reductions in travel expenses abroad.

There are, in addition, a number of adjustments between fiscal years. On balance, the increased requirements during FY 73 are "explained" by the early recruitment of Ms. Bougeon-Maassen and the need to advance the Jamaica and Colombia trips at the request of the Urban Projects Department and the Regional Offices concerned. Just in case it may have occurred to you that we might postpone the third mission into FY 74, this is not a practical alternative in terms of our work program. It would postpone the collection of the data beyond the time when we would have research assistance for its processing and Roy Bahl's presence for analysis.

What I would like to ask of you is:

- 1) Approval at the May meeting of the Research Committee of funds for FY 74 which come as close as possible to meeting our revised estimate of requirements -- i.e. \$62,400 less \$28,000 or \$34,000.

- 2) Prior approval to expend \$6,700 of this additional authorization during FY 73 in accordance with the cover memorandum on limits.

Please also note that we have requests to extend this research to two cities in Brazil, as well as cities elsewhere. We would very much like to extend this research and increase our sample size, but intend to handle this in terms of a proposal for supplementary research at the time of submission of our draft report. This will occur before the end of FY 74, and will propose expenditures on the order of \$30-40,000 during FY 75.

RPO270: Urban Public Finance  
Main Items of Increase from Original  
to Present Estimates of Expenditures

<u>Adjustment</u>	<u>Effect</u>		<u>Total</u>
	<u>FY 73</u>	<u>FY 74</u>	
(1) Increased Participation by Principal Research Assistant	\$3,159	\$1,461	\$4,620
(2) Covering Costs of Temporary Research Assistants under the Project	1,200	6,000	7,200
(3) Mission(s) to Colombia and Jamaica advanced from FY 74 to FY 73	3,730	(3,730)	-
(4) Secretarial Assistance	-	1,800	1,800
(5) Addition of Miscellaneous Travel	578	500	1,078
(6) Reduction in Travel Expenses	(1,610)	530	
Total	<u>\$7,057</u>	<u>\$6,561</u>	<u>\$13,618</u>

TABLE I: RPO270 - URBAN PUBLIC FINANCE

Item	FY/73						FY/74				PROJECT TOTAL	
	Original Budget Estimate	Commitments as of 3/31/73	Disbursements as of 3/31/73	Necessary Additional Disbursements	Necessary Adjustments (Comm.&Disb.)	Transfer To or (From) FY/74	Budget Required	Original Budget Estimate	Transfer To or From FY/73	Additional Requirements		Budget Required
Consultant Fee: Roy W. Bahl	5,000	7,000 (a)	-	3,500	-	1,500	3,500	12,500	1,500	-	14,000	17,500
Consultant Fee: Francine Bougeon-Maassen	2,000	5,390 (b)	2,849	2,310	-	(3,159)	5,159	4,000	(3,159)	4,620 (c)	5,461	10,620
Young Professionals												
Johannes Iinn: 8 months	6 mo.	-	-	-	-	-	6 mo.	2 mo.	-	-	2 mo.	6 mo.
Jane Humphries: 6 months	-	-	-	-	-	-	-	6 mo.	-	-	6 mo.	8 mo.
Temporary Research Assistants 4 x 3 months @ \$600/mo.	- (d)	-	-	-	1,200	-	1,200	- (d)	-	6,000	6,000	7,200
Travel												
Mission # 1 Korea/India	7,600	6,540	4,660	1,880	-	-	6,540	-	-	-	-	6,540
Mission # 2 Jamaica/Colombia	-	3,230	7	3,227	500	(3,730)	3,730	4,700	(3,730)	-	-	3,730
Mission # 3 Korea, Indonesia, India, Kenya Tunisia	13,000	-	-	-	950	-	13,950	-	-	-	-	13,950
Miscellaneous (e)	-	542	450	128	-	-	578	-	-	500	500	1,078
Secretarial Assistance (3 mo.)	-	-	-	-	-	-	-	-	-	1,800	1,800	1,800
TOTAL	27,600						34,657	21,200			27,761	62,418

(a) Total Commitment (FY/73 & FY/74) is \$17,500

(b) Total Commitment (FY/73 & FY/74) is \$ 7,700

(c) \$2310 already committed, plus \$2310 additional

(d) Time budgeted for, but not funds. It was assumed these would be available from Departmental Budget, which is not now the case.

(e) Travel within U.S.

(f) Assuming additional secretary, if approved in FY 74 budget, will not be in place before 9/1/73.

Mr. M. G. Haltin - Education Dept.

April 19, 1973

Hans Thias - P&HRD, DED *HTH*

Research Project Proposal: "Cost Effectiveness of a Vocational  
Training Scheme"

The Research Proposal seems to be both a very relevant and interesting one. I particularly like the idea of studying in depth one scheme in a given country rather than make some inter-country survey in which a lot of valuable detail would be lost.

After discussing with Mr. Jallade the amount of data collection intended, it would seem to me that the estimated cost of \$8,000 is on the low side. I should think that a figure of about \$15,000 would be more realistic, given that the country tentatively envisaged is a high cost country (Venezuela).

cc: Messrs. D.J. Turnham - P&HRD, DED  
J. Simmons - P&HRD, DED  
D.S. Ballantine - ED  
H. Erder - ED  
J-P Jallade - ED

Mr. J. J. Stewart, Chief, Educ. Projects, EMENA

April 19, 1973

Alberto de Capitani, Educ. Projects, EMENA

*Alle*

Mr. Simmons' Proposed Study on the Benefits of Schooling for Workers

1. It is a fairly interesting research project, which might help throw some light on the vexed question of the relationship between occupational structures and educational "requirements". It would consist of a multiple regression analysis of determinants of earnings for selected professions in Tunisia, complemented by a statistical analysis of variables affecting "ability" and "work experience". The study would build upon and hopefully improve a previous research conducted by Thias and others by

- i) expanding the sample questionnaire so as to include data on behavioral patterns and parental socio-economic background of workers;
- ii) measuring rates of workers' promotion;
- iii) improving the index of "workers' satisfaction".

2. The study would be on individual selected occupations (electricians, mechanics, typists and accountants) rather than across occupations. The following hypotheses would be tested, within each professional group:

- i) the amount of schooling is virtually insignificant to explain earning differentials for workers with less than 10 years of education;
- ii) for workers with 10 years of education or more, additional schooling is related to earning levels, but does not explain much variance in earnings; and
- iii) there is no statistically significant relation between the amount of schooling and "job satisfaction".

3. My preliminary comments on the methodology of the proposed study, which I discussed with Mr. Simmons, can be summarized as follows:

- i) statistical analysis of earning determinants within any given occupation cannot be interpreted as providing a direct answer to the question whether the Bank should put more or less money into education (or into any subsector of education). Of course, a bricklayer with a PhD is not necessarily more productive--and presumably is less productive--than a bricklayer with primary education only. The problem is rather: if we invest "X" additional resources to produce "Y" additional PhD's, will the likely benefits for the country (however defined) justify the cost? But this seems to imply the need for a cross-occupation analysis rather than a study of earning variance within a given occupation.

- ii) The determination of the statistical significance (or lack of significance) of education as an explanatory variable of earning differentials within a given occupation is only the first step toward determining the optimal educational background for that profession. In principle, there is a curve of "marginal productivity" of education for each profession. But neither the regression coefficient nor the t-test of statistical significance can help very much in identifying this curve. Moreover, the regression would be in terms of the existing blend of educational backgrounds of workers in that profession, which reflects among other things the relevance of education at the time when workers were educated. Given the possibility of quality improvements, can the regression give meaningful guidance for investment in new schools?
- iii) As I understand it, the thrust of the study would be on the relationship between education and earnings. This can provide some indication about the potential contribution (or lack of contribution) of education towards improving income distribution. However, to the extent that the level of educational attainment is an "arbitrary system for rationalising privileges" (Jencks), the relation education-earnings is a poor and potentially misleading device for resource allocation. If the labor market gives wrong signals on the true scarcity value of educated manpower, it seems to me that it is the labor market mechanism that should be reformed in the first place rather than the allocation of resources among different educational levels. Of course, there might be a trade-off between the objectives of income distribution and economic growth. Hopefully, Mr. Simons' study should try to cast some light on this aspect.
- iv) One of the main reasons referred to by Mr. Simons to conduct the analysis within individual occupational groups is the need to avoid the problem of statistical correlation (multicollinearity) among explanatory variables. In fact, if there is multicollinearity, regression coefficients are biased and the usual tests of significance may give too optimistic (and misleading) results. However, a quick look at the model proposed by Mr. Simons suggests that this problem may still be present: for instance, there may be correlation between schooling and health of workers or between work experience and parental socio-economic status. I would suggest therefore that a multicollinearity test be used and the results be indicated in the study--something that was not done in connection with the Kenya exercise.

de Capitani:lka

CC: Mr. Simons

Mr. David Turnham, Division Chief, P&HR, DED

April 18, 1973

John Simmons, P&HR

Research Committee Operations

This is to review our conversation with Ted this morning.

I have submitted my research proposal, "The benefits of schooling for workers". It will be considered at the May meeting of the Research Committee.

Two weeks ago I was also asked for proposals that I would submit to the fall meeting of the Committee. I gave Ted three proposal forms, including one on health that Timothy King will be mainly responsible for. Total cost of the 3 spread over 2 years was US\$ 251,000. I would work with several consultants. I was told that the department exercised a pre-Committee rationing process, and cuts had to be made.

I did not understand how this departmental rationing process works.

JSimmons:ed

cc: Messrs. R. Gulhati, Deputy Director, DED  
E. K. Hawkins, Senior Adviser, DED



INCOMING TELEX

Tunisia loan 852/113290/226

cc O.P. [unclear]

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ATTN. MR. SIEBECK

RE TUNISIA TOURISM PROJECT REURTEL APRIL 16. HOW CAN WE UNDERSTAND THE STATEMENT THAT US DLRS 100 THOUSAND FOR INCENTIVE STUDY ALREADY AVAILABLE UNDER BANK, IDA AND KFW FINANCING FOR CONSULTANT SERVICES WHILE IN YOUR TELEX OF APRIL 13 YOU STATE THAT PROJECT DESCRIPTION ANNEX B TO LOAN AGREEMENT HAS TO BE AMENDED IN ORDER TO MAKE POSSIBLE FINANCING. WE FEEL THAT PART E OF ANNEX B AS IT EXISTS ALLOWS FINANCING OF INCENTIVE STUDY. ON THE OTHER HAND IN THE APPRAISAL REPORT, IT WAS STATED THAT ONTT ITSELF WOULD CARRY OUT INCENTIVE STUDY. PLEASE GIVE YOUR PROPOSAL OF AMENDING PROJECT DSCRIPTION.

REGARDS KREDITANSTALT

411352A KWFM D

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RCA TELEX FROM FRANKFURTMAIN APRIL 16, 1973

411352Z KWFM D

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16/4/73  
COMMUNICATIONS SECTION

16,00

Distribution

Mr. Siebeck ✓  
Mr. Hartwich  
Tourism Projects

APR 16 1973

ATTN.: MR. S I E B E C K  
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Action Info.  
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*(AEE) for action*  
*action approved*  
*see memo 20's*  
*reply of April*  
*16. Off*

RE TUNISIA TOURISM PROJECT

THANKS FOR YOUR TELEX APRIL 13. WE ARE CONSIDERING PARTICIPATION IN FINANCING OF INVESTMENT INCENTIVE STUDY. GOVERNMENT APPROVAL WILL BE REQUESTED. PLEASE INDICATE PROBABLE COSTS OF STUDY.

REGARDS KREDITANSTALT

+?

WELL RCD, PLS ?

411352A KWFM D#

Mr. Ernest Stern

April 16, 1973

DHK  
Douglas H. Keare

The Urban Sector: Work Program for Policy Formulation, Guidelines and Research -- Essential Points for Discussion with Mr. McNamara

---

Sandy asked me to try to develop a couple of points which -- if given the opportunity -- we should try to get McNamara to focus on. I compiled some notes prior to and during my trip to Spain last week, and we discussed them this morning. They boil down, essentially, to the following:

- I. "It" is essentially a new field for the Bank and others:
  - A. "It" requires definition, and for the time being (as will be seen better in the first Urban Survey Mission Report on Zaire) we are tending to boil the "field" down analytically into three policy areas:
    - 1. Urbanization Policy: having to do with the overall rate of growth of urban activities and populations, as well as their distribution between cities in a country.
    - 2. Regional Policy: having to do with the relative rates and patterns of growth between regions in a country, and identification of the inter-regional and intra-regional linkages which are most important.
    - 3. Urban Policy: having to do with the planning, land use and infrastructure policies -- involving inter-spatial as well as inter-sectoral judgments -- which most affect the ability of a given city to fulfill its "role" efficiently.
  - B. Because the field is new, Bank activity requires -- and can benefit tremendously from a systematic learning process.
    - 1. This underlies the great stress we have placed upon developing an integrated program of research and operational support (both drawing upon the other).
    - 2. It also explains the great importance we have attached to monitoring: basic data gathering for all projects; more comprehensive analysis for a limited number.

II. If the development of an unproductive "dichotomy" between rural development (which is "good") and urban development (which is "bad") is to be intelligently avoided, not only must the importance of regional development (see above) and the mutually supporting aspects of rural and urban development be stressed (i.e., "urban projects" may well be in urban areas, but their justification must rest -- among other things -- <sup>on</sup> a framework which treats inter-regional and inter-urban factors); but also the following factors are of utmost importance.

- A. Land: In urban as in rural areas land and its use are of crucial importance.
- B. Urban Public Finance: In meeting minimal needs, urban areas must not exhaust resources available for investment elsewhere.
- C. These two topics are very closely linked as land is the most important resource actually or potentially available to urban governments.

DHKeare:bn

cc: Mr. A. Stevenson

April 13, 1973

Dr. P. O. Sada  
Department of Geography  
University of Lagos  
Lagos, Nigeria  
W. Africa

Dear Pius:

Thank you very much for your letter of March 15 and the attached draft questionnaires. I am afraid I must start with some unfortunate news. The research budget for the coming year has been held down fairly severely. Because of the requirements of projects which we have already on the way, or to which are firmly committed, we shall not be able to fund any additional new studies this coming year. This therefore means that we will not be in a position to assist in any of your proposed project in the coming year.

We had hoped that you will be able to pursue the study as it will help provide some valuable insights into retailing activities in urban areas, both from the supply and demand point of view. We have looked at your questionnaire with some care and have a number of queries and/or suggestions particularly on the questions covering individual consumers.

- a) On the income categories we wondered whether the category "0" below N 300, was not rather all embracing and would include a very large proportion of the total population, whereas some of the income classes towards the upper end of the scale would contain very few respondents. It might be advisable therefore to create some additional groups at the lower end of the scale and combine some of those towards the upper end.
- b) Would the question on household composition be useful in this context i.e., number of adults, children, etc. and also perhaps numbers for whom purchases are made.
- c) A minor query -- Is the head of the household the only appropriate person to respond to questions on food purchases? Should information not be obtained from the wife as well, since we understand that in West Africa she is primarily responsible for shopping for regular items.

- d) Income -- Would the question apply to individual or household incomes? In addition some information might be elicited about income received in kind, and also perhaps other sources of food, e.g., vegetables raised by the family or livestock kept, or supplies received from other members of the extended family.
- e) Employment -- Since you proposed a question about areas used for shopping, and also link this with employment, would it not be useful to ask where the major employment is located. Again, one or two of the categories appear a bit all embracing, e.g. business/commercial. Some special classification might be in order in such a case. Additional categories might be suggested e.g. transport. One might also attempt to determine if there are secondary sources of employment.
- f) Expenditure -- As with income, we wonder whether the lowest category included is not too high. In other words how many households can spend more than N20 on food per month. Also it is not clear that the question of average total expenditure would be terribly illuminating.
- g) Transportation -- One or two additional questions on this topic would perhaps be quite useful. For example, do the households own any vehicles (e.g. bicycle, car) and what are the methods used to travel to and from employment in addition to the question of travel for shopping purposes?

I hope these comments will be useful to you and that you will keep in touch with us on the progress of your study. We are only sorry that in the present circumstances we are unable to become directly involved with you in this effort.

Best wishes,

Yours sincerely,

J.C.E.

John C. English,  
Urban and Regional Economics Division  
Development Economics Department

cc: Messrs. Keare  
Mirza  
Lim  
Vaidynathan  
Ms. Cohen

Mr. Francisco Thoumi

April 12, 1973

Helen Hughes *MM*

Terms of Reference: Trip to Colombia and Lima under the Boston University's Center for Latin American Development Studies' research project.

1. On or about April 30, 1973, you will go to Colombia on behalf of the Center for Latin American Development Studies of Boston University to undertake a part of the collaborative research project on industrial capital utilization.
2. Your part of this project will require you to estimate in as accurate a way as possible the shift cost differentials that affect Colombian industry and their relationship with the utilization of fixed capital. You will concentrate on the study of the industrial branches producing textiles, shoes, clothes, wood furniture, brick, cement, house appliances, agricultural and industrial machinery. These are the industries included in the sectors # 23, 243, 244, 36, 3311, 334, 354, 3717, 373, 362 and 363 of the international standard industrial classification.
3. You will design a sample of approximately 50 firms which you will visit to obtain the necessary information. The sample could include firms located in Medellin, Cali and Bogota.
4. On or about May 13, 1973, you will go to Lima where you will attend the research project's seminar to be held between May 14 and 16.
5. You will extend your visit to Lima by two days, at the IBRD's expense, to inform yourself about recent developments in the Andean Economic Market. This will be incorporated into the background paper you have been assigned to write on this common market.
6. On or about June 9, 1973, you will return to Washington and will write a report for the Center of Latin American Studies.

cc. and cleared with Mr. R. Gulhati

O.P. Research

INCOMING CABLE

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April 10, 1973

APR 13 11 43 AM 1973

COMMUNICATIONS SECTION

Distribution

Mr. Tins  
Mr. Hayes

DR. WOUTER TINS

INTSAFRAD

WASHINGTON/DC

REF MY LETTER OF MARCH 12 PLEASE LET ME KNOW WHEN WE CAN EXPECT TO  
GET A SET OF THE REVISED SOCIAL AND ECONOMIC CABLES WOULD BE  
EXTREMELY HELPFUL FOR COMPLETING RESEARCH PROJECT CURRENTLY UNDER WAY  
MANY THANKS IN ADVANCE SINCERELY

BRUNO FRITSCH



Mr. Ernest Stern (thru Mr. Ravi Gulhati)

April 10, 1973

Douglas H. Keare *DHK*

FY 73 Research Budget (Upper Limits)

I am aware that I have taken considerable time to respond to your OM of March 12 on this subject.

The delay has been occasioned by shortcomings in present procedures for recording obligations and disbursements and the resulting difficulty in obtaining up-to-date information. It is not "disruptive," however, as I find that we can live within the prescribed limits -- albeit only by adjusting between projects.

The situation is this.

You have indicated the following ceilings:

RPO240	\$ 8,100)	
RPO241	9,400)	or a total of \$38,000.
RPO270	20,500)	

We can live with the following ceilings:

RPO240	\$ 400 )	
RPO241	3,500 )	or a total of \$38,600.
RPO270	34,700(*) )	

\* The increase in this figure is explained in my memorandum of this date to you and Ravi Gulhati.

I would simply like to point out that making this overall downward adjustment will entail postponing payments of \$6,000 and \$7,500 respectively to consultants who will have fulfilled the terms of their contracts under RPO241 and RPO240. This is acceptable to the consultants in question; however, it is undesirable to carry these obligations forward to FY 74 if the research budget turns out not to be as tight as you presently expect. Thus, I simply want you to know at this stage that we will be in a position to disburse an additional \$13,500 -- or any part thereof -- if the situation makes this possible.

cc: Messrs. Stevenson  
Hawkins  
Ray  
Busz

DHKeare/gc

Mr. Ernest Stern (thru Mr. Ravi Gulhati)

April 10, 1973

Douglas H. Keare *DHK*

Submissions to the Research Committee (April - August 1973)

Last week we submitted preliminary estimates of the claims we will make on the Research Budget for FY 74. We have now been able to assess the status of ongoing projects and develop further our anticipated proposals. As a result, we are able to improve our estimates. These are shown in the attached table; however, the following clarifications are in order:

- a) Budgeting for items 1 and 2 is not explained, as no adjustments in total authorizations are proposed.
- b) Revised estimates for item 3 are explained in my attached OM of this date.
- c) It is not expected that site and services monitoring (item 4) will become a matter for consideration by the Research Committee during FY 74, as it has been agreed that FY 74 requirements should be met (jointly) by provisions in the operating budgets of the UPD and the DED (URED); however, given the vagaries of the budgetary process, it is unwise to count on a rational conclusion. Thus, we have included the possibility that a modest amount may be required.
- d) The Research Proposal for item 5 has been presented and favorably received by the Research Sub-committee.
- e) The Research Proposal for item 6 will be presented by April 21.
- f) The Research Proposals for items 7 and 8 will be presented in August.

cc: Messrs. Stevenson  
Hawkins  
Ray  
Busz

DHKeare/gc

*D.P. Research*

**OUTGOING WIRE**

TO: INTBAFRAD  
PARIS

DATE: APRIL 10, 1973

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SERVICE: TELEX *WM*

COUNTRY: FRANCE

TEXT:  
Cable No.: 1 FOR CAUAS PRINCE DES GALLES HOTEL. RECEIVED TODAY LETTER FROM PAUL MARC HENRY DATED MARCH 30 REQUESTING BANK FINANCIAL ASSISTANCE FOR DISSEMINATION STUDY. SUGGEST YOU OBTAIN COPY OF LETTER. DEFICIT ESTIMATED AT 150,000 AND SUGGESTION THAT BANK COVER ONE THIRD. POSITION WE DISCUSSED PRIOR YOUR DEPARTURE REMAINS VALID. EVEN IF THERE IS EVIDENCE IN MEETING THAT SECOND PHASE MAY BE BETTER THAN WE ANTICIPATE, WE COULD NOT GO BEYOND 10,000. THERE IS NO REPEAT NO PROSPECT THAT ANYTHING LIKE 45,000 WILL BE AVAILABLE. ASSUME QUESTION WILL BE RAISED IN MEETING BUT IF NOT SUGGEST YOU INFORM HENRY OF OUR POSITION PRIVATELY. REGARDS  
STERN

**NOT TO BE TRANSMITTED**

AUTHORIZED BY:

NAME Ernest Stern

DEPT. Office of VP-Development Policy

SIGNATURE *[Signature]*  
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

REFERENCE:  
EStern:di

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 ASSISTANCE FOR DISSEMINATION STAYS. SUCCESS AND OBTAIN COPY OF  
 THAT MUST NEWS DATED MARCH 30 REGARDING BANK FINANCIAL

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O.P. Research

Mr. W. C. Baum

April 9, 1973

D. S. Ballantine *DSB*

Progress Report on Policy and Research Work of the  
Education Department

Please find attached as requested, the progress report of  
the Education Department on policy and research activities for the  
quarter ending March 31, 1973.

MGHultin:rv *M*  
Attachment

Education DEPARTMENT  
 QUARTERLY PROGRESS REPORT ON POLICY AND RESEARCH TASKS/PROJECTS UNDER EXECUTION 1/  
 Status as of April 1, 1973

TASK/PROJECT	STAFF	DATES						REMARKS
		START		FIRST DEPT		COMPLETION		
		Original Plan	Current Plan/ Actual	Original Plan	Current Plan/ Actual	Original Plan	Current Plan/ Actual	
1. Educational Implications of Development Policies Emphasizing Social Equity Objectives	Erder* Jallade Sawaya	Jan. '73	Jan. '73	July '73	July '73	Sept. '73	Sept. '73	-
2. Nonformal Education for Rural Development	Ballantine* Hultin, Erder Thint, Sawaya Futagami Grosse	March '73	April '73			July '73	July '73	Follow up work on the study of the International Council for Educational Development. Report not yet finished.
3. Educational Achievement; the Relation between Students' Socio-economic Background and Performance	Hultin* Unidentified ed. (3rd research post), Ballantine Erder, Grosse	April '73	April '73	Sept. '73	Sept. '73	Dec. '73	Dec. '73	
4. The Process and Management of Education Reforms	Erder* Ballantine Hultin	Oct. '72	Oct. '72	Mar. '73	Mar. '73	June '73	June '73	Paper by Mr. Diez-Hochleitner (Consultant)
5. Health Personnel Training Items in Education Projects	Brandenburg* Hultin	Jan. '73	Jan. '73	Feb. '73	Feb. '73	Feb. '73	April '73	Paper is being distributed to regional education divisions for comment
6. Preparation of Sector Policy Paper II		See page 4, Projects to Commence in Oct. '73						
7. Handbook for Project Implementation	Thint* Hultin Sawaya	Jan. '73	Jan. '73	June '73	June '73	Nov. '73	Nov. '73	

## QUARTERLY PROGRESS REPORT ON POLICY AND RESEARCH TASKS/PROJECTS UNDER EXECUTION 1/

Status as of April 1, 1973

NO./PROJECT	STAFF	DATES						REMARKS	
		START		FIRST DRAFT		COMPLETION			
		Original Plan	Current Plan/ Actual	Original Plan	Current Plan/ Actual	Original Plan	Current Plan/ Actual		
8.	Schedules of Accommodation and Space Standards for Educational Institutions	Thint* Hultin Sawaya w/ contribution from Unesco Cooperative Program	April '73	Sept. '73	Sept. '73	Mar. '74	Dec. '73	June '74	Expected contribution from Unesco not forthcoming. Rescheduling necessary in view of ongoing Unesco study "Higher Educational Facilities' Study" expected early '74.
9.	Update Guidelines for Technical Assistance	Dunnill* Thint	Nov. '72	Nov. '72	April '73	Mar. '73	May '73	May '73	
10.	Education Indicators	Erder* Gomez	c o n t i n u o u s						Indicators repeatedly updated and circulated.
11.	Study of Cost Estimates on Equipment, Expansion of Basic Equipment Lists	Brandenburg* Hultin Thint	Feb. '73	Feb. '73			Oct. '73	Oct. '73	
12.	Project Implementation Monitoring System		See page 4, Projects to Commence in Oct. '73						
13.	Unit Costs in Education Projects	Thint* Sawaya Le Blanc	Mar. '74	April '73	July '74	Nov. '73	Oct. '74	Mar. '74	Project will start ahead of time
14.	Study of Project Costing		See page 4, Projects to Commence in Oct. '73						

Education DEPARTMENT  
 QUARTERLY PROGRESS REPORT ON POLICY AND RESEARCH TASKS/PROJECTS UNDER EXECUTION 1/  
 Status as of April 1, 1973

TASK/PROJECT	STAFF	DATES						REMARKS
		START		FIRST DRAFT		COMPLETION		
		Original Plan	Current Plan/ Actual	Original Plan	Current Plan/ Actual	Original Plan	Current Plan/ Actual	
15. Project Evaluation Techniques and Procedures	Hultin* Unidentified Educator (3rd research post)	July '73	July '73	Jan. '74	Jan. '74	June '74	June '74	Project to be executed by team of outside consultants. Project approved by research committee but no appropriations provided yet.
16. Comparison of the Cost-Effectiveness of Alternative Learning Technologies in Vocational Training	Hultin* Erder Jallade	Nov. '72	Nov. '72	June '73	June '73	Sept. '73	Sept. '73	Project is being executed by outside consultants and is on schedule.
17. Functioning of Labor Market	Erder* Jallade	Liaison with Development Economics Department						Project is being executed by Development, Economics Dept.
18. Education Finance	Jallade* Erder	Jan. '73	Jan. '73	May '73	June '73	July '73	July '73	
19. Education Mass Media	Futagami*	Jan. '73	Jan. '73	April '73	April '73	June '73	Aug. '73	Collection of additional technical and cost data required prior to completion of report.

Include tasks/projects completed within the quarter, under way or expected to start within the next quarter. Tasks expected to start in the next quarter should be reported separately, after those completed or under way.





# Record Removal Notice



<b>File Title</b> Operations - Research 1972 / 1974 Correspondence - Volume 4		<b>Barcode No.</b>  30045540		
<b>Document Date</b> 09 April, 1973	<b>Document Type</b> Letter			
<b>Correspondents / Participants</b> To: Professor John Friedman, Head, Urban Planning, University of California From: Douglas H. Keare, chief, Urban and Regional Economics Division				
<b>Subject / Title</b> Consultancy for case-study on education finance				
<b>Exception(s)</b> Personal Information				
<b>Additional Comments</b>		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.		
		<table border="1"><tr><td><b>Withdrawn by</b> Sherrine M. Thompson</td><td><b>Date</b> December 28, 2010<sup>7</sup></td></tr></table>	<b>Withdrawn by</b> Sherrine M. Thompson	<b>Date</b> December 28, 2010 <sup>7</sup>
<b>Withdrawn by</b> Sherrine M. Thompson	<b>Date</b> December 28, 2010 <sup>7</sup>			

D. P. Renschbach

April 6, 1973

Dr. Fernando Naranjo  
Director  
Instituto de Investigaciones  
Escuela de Ciencias Economicas  
Universidad de Costa Rica  
San Jose, Costa Rica

Dear Dr. Naranjo:

With regards our meetings of last March 16 and 20, it would be very useful to have from you at this time a very preliminary estimate of what the cost of the study we discussed would be. A very preliminary description of the aims of the study follows.

The study is expected to be empirically oriented. It is to include:

- (i) Consumer behavior: demand for telephones, demand for calls (urban and long distance, busy-hour and off-busy-hour) price elasticities and cross-elasticities.
- (ii) Rural telephony: the importance of the telephones as an input to production (better marketing, reduction in trips to urban areas for seeds, fertilizers, spare parts, etc.) and as a consumption service (counterbalance to the lure of the "city lights," etc.).

(iii) Survey of the benefits of a telephone network. Its contribution to economic development.

This study will require field trips, interviews with users and potential users, surveys by means of questionnaires, etc. and probably some econometric work.

Your reply to this should be in our hands not later than April 18 and include the preliminary cost estimate and if possible include also estimates of man-months of different levels (economists, students, etc.), secretarial work, computer time and other expenses.

Hoping to hear from you soon, I remain,

Yours sincerely,

Raul Schkolnick  
Public Utilities

RSchkolnick:mds  
cc. and cleared with Mr. Warford  
cc: Messrs. Rovani, Vasudevan  
Blue Book Files

Mr. George Kalmanoff

April 5, 1973

Frederick T. Moore

Meeting on Mason's Proposal for Research on Public Enterprises

On April 3 there was a meeting to discuss the research proposal prepared by Professor Mason concerning public enterprises. He was in attendance as well as Messrs. Chenery, Stern, Kuczynski, Karaosmanolgu, Qureshi, Baum, and Mrs. Hughes.

The discussion was lively and the main points in opposition to the proposal were voiced by Mrs. Hughes who does not share Prof. Mason's approach to the problems surrounding public enterprise. Several others raised questions about whether the Bank could have an influence on governments concerning the role of public enterprise and on how the research should be undertaken, but in general it was agreed that this is an important area. I made the point that whereas some countries such as India might not be responsive to Bank advice in these areas, others such as Indonesia, Korea, Spain, Turkey, Algeria, Morocco, etc. have not foreclosed other alternatives. Specifically there was discussion of the value of a comparative study of the three public fertilizer companies and the two private ones in India to determine whether there were any significant differences in performance. Mrs. Hughes said that we did not have enough information. Both Mr. Qureshi and I said that in both the appraisal and supervision reports there is a good deal of information, sufficient for a detailed analysis. It seems likely that this study may be commissioned. At the end of the meeting Prof. Mason asked Mr. Stern, "well, are you going to do anything?" to which Mr. Stern replied that a small committee would be established to review the research proposal and to come to some definite decisions.

FTM

D.P. Research

April 4, 1973

Dr. Peter Walser  
Interdisciplinary Postgraduate Course  
on Problems of Developing Countries  
ETHZ  
Scheuchzerstrasse 68  
8006 Zurich  
Switzerland

Dear Dr. Walser:

Thank you for your letter of 22nd March, transmitting the Steering Committee's request to make finance for six more man/months available to the 1972 YAR Team. Mr. Escher has probably already informed you (following my letter of 20th March) that we are trying to secure supplementary funds for the team. I expect a decision on this from the Research Committee within the next week or so. I have also asked for a similar increase of funds for the next fiscal years, so I hope that the problem won't arise for Teams 2 and 3.

It seems from Mr. Escher's latest letter that the analysis of the surveys is progressing on schedule. We are looking forward to the results and to Mr. Escher's visit here in Washington. I am not sure whether you and the other members of the Steering Committee are at all actively involved in the analysis work: of course we would welcome any comment or suggestion you may have.

Please convey my best regards to Messrs. Fritsch, Grubinger and Widmoser. I look forward to hearing from you again soon.

Yours sincerely,

*Em*  
Brigitta Mitchell  
Transportation Department  
Research Division

BMitchell:mcp

Mr. E. Stern

April 4, 1973

Attila Karasmanoglu A.K.

Meeting on Three Research Proposals by  
Economics of Industry Division

A Review Panel consisting of Messrs. J. Duloy, F. Moore, D.C. Rao, and myself, met on March 29, to review three projects submitted by the Economics of Industry Division. Also present were Mrs. Hughes and Messrs. Hawkins, Ray and Thoumi.

The Panel agreed that all three research topics were of high priority but felt that a more precise presentation of methodology in each case would help in the evaluation of the proposals.

Below are summaries of the conclusions reached by the Review Panel on each project.

I. Small-Scale Industry Proposal

The Panel learned in the meeting that SIDA is interested in participating in this project. It is understood that SIDA's participation may be used to broaden (possibly to double the number of countries) the basis of observations. It is also understood that an issues paper will be prepared before the start of the project on the reasons for financing small-scale industry and the criteria for assessing the success of a financing program for small-scale industry.

Members of the Panel felt that the project with the given budget and manpower resources should concentrate only on the financing aspects of small-scale industries, and in doing so should preferably concentrate on specialized institutions or institutions with specialized departments in this field.

The Panel also felt that the questions posed in paragraphs 7 and 9 of the paper describing the proposal extremely relevant and expressed the hope that they would be kept strictly in mind in further work on the project.

II. Proposal on Export Development Program

The Panel felt that the proposal presented did not clearly identify how phase two, which is under consideration, was related to phase one. A reference was made by Mr. Moore to studies in-depth carried out by the Industrial Projects Department in India on commercial vehicles and tractors in the context of lending operations. Such work may in fact prove more capable of answering questions posed in phase two. It was agreed to suggest to the sponsors of the project to review the material available in the Industrial Projects Department and identify the relationships between the two phases and the research component before finally presenting the project to the Research Committee. One member of the Panel thought that

the proposal had little "research" content, and doubted whether the proposal was appropriate for financing through the research budget.

### III. Proposal on Capacity Utilization

There was general agreement among the members of the panel about the importance of the topic and about the significance of contribution that could be made if policies could be identified to affect the capacity utilization in the developing countries. There was however a series of problematic aspects of the research project as defined hereunder.

- (a) The proposal places great emphasis on the precise measurement of actual underutilization of capital (see reference to "factual information" in Section V). But there is no indication of what the measure of capital utilization will be and we are not satisfied that the well-known theoretical and practical problems have been overcome.
- (b) Problems of measuring capital utilization vary immensely between different types of industry. Hence it is doubtful whether a cross-country, cross-sector approach will yield homogenous data amenable to statistical analysis.
- (c) The proposed methodology consists of single equation regressions of capital utilization against various probable influences, supplemented by "impressions". We have doubts about the true exogeneity of some of the proposed right-hand-side variables (for example, the capital-labor ratio, and about their explanatory value or reliability). Doubts were expressed about the applicability of regression methods to a multi-dimensional dependent variable; e.g., planned and unplanned unutilized capacity, capacity versus intensity, and about whether the relevant variables, both dependent and explanatory, can be covered with sufficient precision for a sample of 800 firms. If conclusions rely more heavily on general impressions (which is likely), the size of the proposed sample seems excessive.
- (d) The proposed sample consists of 800 firms in four countries. It is doubtful whether so many firms will be available for survey and whether the interviews can be conducted in sufficient depth in the allotted time.
- (e) Given the methodology it is very difficult to see how policy variables will be introduced into the analysis in a manner that can lead to conclusions and recommendations.

Mr. E. Stern

- 3 -

April 4, 1973

The Research Committee has already approved another study of the problems, the results of which are expected in late 1973 or early 1974. The Panel was not convinced that we should finance another major project in this area parallel with the Rosenstein-Rodan study, in view of the doubts expressed in the above paragraphs. Some form of sequencing would appear to be preferable.

AKaraosmanoglu/sr

Cleared with and cc: Messrs. Ray (12)  
Duloy  
Moore  
D.C. Rao

April 4, 1973

Mr. Hermann Escher  
Laegernstrasse 14  
8304 Wallisellen  
Switzerland

Dear Mr. Escher:

Thank you for the cable and your letter of 26 March. I am happy that you will be able to come to Washington and look forward to your visit.

Now to arrangements and timing: I don't think I mentioned in my last letter that Professor Alan Walters ("The Economics of Road User Charges") is currently here at the Bank for a 4-5 week period and looking, among other things, at the Feeder Road Studies to help us develop our framework for data analysis. On the basis of the (limited) data we have in hand so far, he has put together a first draft, a copy of which I enclose. You will see a renewed emphasis on standardizing the data in hand and on the thorny question of how to complement the data collected for the sample-areas with data for the whole road influenced area. We hope that aerial survey interpretation may provide the answer. From Mr. Steffen's project description (of which you gave me a copy) it would seem feasible to do land-use interpretations (para. 2.3.4) of the FAO photos - from your assessment of the UK survey pictures, the same should be possible for these, too. Do you think Mr. Steffen or someone else at the Geographical Institute would be available to carry out this work, say, this summer? At what (minimum!) cost? If so, specific Terms of Reference could be worked out during your visit here with the help of Mr. Wulf Drewes, a Bank expert on these matters as well as satellite-photo interpretation, with whom we have discussed this question.

But apart from this, there is a host of other questions concerning the extent-and-reliability-of the data we have in hand, which Professor Walters would like to discuss with you. It would therefore be most helpful, if you could stop over in London on your way to Washington for a meeting with him (and possibly the UK authority who would provide us the set of prints from their survey - if you have their name and address). His address:



Prof. A.A. Walters  
Room S 377  
St. Clements Building  
Houghton St.  
Aldwych  
London WC 2 A 2AE  
Tel: Office 01-405-7686  
Home 01-722-2894

(Underground Stations: Holborn or Temple.)

Professor Walters would be available on Monday morning, 30th April, and on Wednesday, 2nd May. Please let him know in advance when you would be calling on him. Similarly, please notify us when you will be arriving in Washington, so the necessary arrangements can be made here. Under the circumstances, it would probably be easiest if you purchased your ticket in Zurich and the Bank reimbursed you for it; alternatively, you could cable us what flights you intend to take, and the Travel Office would arrange for the ticket to be available to you through American Express in Zurich. We anticipate that you will need to be here for 3 weeks, but it is probably best to have the return date open.

I have received a letter from Dr. Walser requesting that finance for additional 6 man/months be made available to the team. As I mentioned in my previous letter, we have already requested this, and I will let you know of the outcome as early as possible.

With best regards to you, Mr. Dunant, Mr. Gruber and Mr. Lieberherr.

Yours sincerely,

*Ben*  
Brigitta Mitchell  
Transportation Department  
Research Division

BMitchell:mcp

Enclosures

April 4, 1973

Mr. Maurice Curtis  
Transport and Tourism  
Technicians Ltd.  
Chichester House  
278-282 High Holborn  
London, WC 1V 7 EX  
England

Dear Mr. Curtis:

Study of Air Transport

Thank you for your letter of March 29th enclosing your first progress report. We are very glad that you have been able to get the study started so promptly.

You mention putting in more time than planned on certain sections. Although I know you are aware of this, I ought to avoid any possible misunderstandings here by pointing out that the fee for the services is fixed, and extra time cannot be paid for by the Bank.

We are very glad that Isin Curtis can join the team, and agree to the change. As you indicate, we do need his Curriculum Vitae for the file.

We look forward to receiving your weekly progress reports. Normally we will not acknowledge them unless there is some specific point on which we should comment.

The proposed timing for your US visit seems perfectly convenient as far as we can see at the moment. For administrative reasons it is important to us that all chargeable work be completed by June 30th 1973.

With best wishes,

Sincerely yours,

*CEM*

Andrew Hayman  
Tourism Projects Department

*AH/jd*

Mr. Ralph H. Hofmeister, Economics Department

April 4, 1973

Anthony Churchill, <sup>A.C.</sup> Division Chief  
Research Division, Transportation Dept.

DAS Public Works Study

The latest version of this proposal is better organized and more clearly presented than those we received previously. It attempts to say something about sources and methods although it still leaves much to the imagination. As before it talks more about the problems than about how to do the research.

The scope of the problem is described differently with some deletions, modifications and additions. I am still concerned however that the scope of the proposal is too broad to be covered properly with the manpower proposed. The time span for country studies is very short, leaving doubts as to how deep the research would be.

One of the more notable changes in the emphasis given the study is the shift from unemployment and technology to the political dimensions of public works programs. Before this is explored much further, we need to have some assurance as to what type of generalizations are possible on the basis of broad political problems encountered in a specific country.

This draft again proposes starting Phase II before Phase I is finished and reviewed. In view of the weaknesses in the proposal, I do not see how we can accept this. The Bank should not be committed to support Phase II until there has been a review of the proposed methodology (part of the project of Phase I) and a judgment based on the Phase I work. It seems to me that only after this can we decide on whether Phase II is worth the money.

One minor point. The terms of reference page 3 suggest that the ILO and various records associated with this public works programs will provide some useful data. We have looked into some of these sources and feel that this assumption is somewhat optimistic.

The proposed terms of reference indicate work starting in February. Does this mean that we are currently paying Harvard overheads?

AChurchill:pmm

cc: Messrs. Stevenson  
Hawkins  
Ray

O.P. Research

Research Committee

April 4, 1973

Joe Wood

DFCD Research Proposals

1. DFCD does not have new research proposals to put before the Research Committee at this time. There are, however, two research interests which could well lead to concrete proposals during the course of FY '74. These research interests concern (a) the allocative effects of constrained lending rates, and (b) the assessment of employment effects of DFC-type loans. These interests are described in general terms in a note I prepared recently in connection with Bank efforts to develop a medium-term research program for the industrial sector (copy attached). I would like to supplement that general description with some comments on the prospects for each of these ideas to develop into a concrete proposal in time to constitute a claim on the FY '74 research budget.

2. A careful analysis of the allocative effects of constrained interest rates ought to be preceded by a review of work on this topic which has already been done. Fortunately, such a review is currently planned as part of the work program for the Public and Private Finance Division. A state-of-the-art paper on "The Role of the Rate of Interest and Credit Rationing in Allocating Financial Resources" is scheduled for discussion by the end of calendar 1973. The paper will suggest a specific program of research. This would appear to be the sensible vehicle for formulating a proposal for Research Committee consideration. We will co-operate with the Public and Private Finance Division in trying to come up with a proposal which satisfies both their interests and our own.

3. The interest we have in improving our analysis of the employment effects of DFC lending is a practical one. The Board is highly sensitive to (and sometimes critical of) the job DFCs are doing with respect to employment creation. While there is widespread agreement at the staff level that the figures on investment cost per job created are an unsatisfactory index of DFCs' performance in this regard, we do not currently have a better index. To develop better measures of performance which can be used in the context of normal appraisal work, the principal task is not so much to clarify theoretical issues as it is to acquire an empirically-based understanding of the relative importance of various factors. For example, is the structure of the labor market in most countries where we operate sufficiently segmented to justify (or indeed necessitate) project-by-project identification of which labor market is being drawn upon, or is such refinement relatively unimportant? In assessing indirect employment effects should we give primary attention to the proportion of inputs purchased domestically or should we focus on the extent of capacity utilization (and restrictions on trade) in input-supplying industries? I doubt that theory alone can give us much practical guidance on these issues; hence the suggestion of a few well-designed case studies. I would by no means rule out the

April 4, 1973

possibility that such case studies will merely demonstrate the futility of approaching the employment generation issue on any basis other than detailed project-by-project analysis. While this would in a sense be a negative finding it would nevertheless have value in that we would have a realistic basis for assessing the costs of more satisfactory appraisal of DFCs' employment effects.

4. As with the interest rate issue, a useful proposal for research on employment effects ought really to be preceded by a state-of-the-art paper. Given manpower constraints in DFCD, we would not be able to undertake a systematic review of the literature ourselves in a reasonable time period. But within the limits of our resources we do intend to undertake a partial review leading up to a research proposal sometime in the latter half of FY '74.

Attachment  
DJWood/cjw

cc and cleared: Mr. D. Gustafson  
cc: M/s. Yenai  
Gulhati  
cc: DFC Division Chiefs

Mr. Anandarup Ray, Office - V.P., Dev. Policy

April 3, 1973

E.V.K. Jaycox, Director, Transportation Department

Projects to be Submitted to the  
Research Committee for Funding in FY 74

For advance planning purposes we are listing below the projects with amounts which we expect to be submitting by June 1 to the Research Committee for funding in FY 74. You will note that all of these projects have previously been approved by the Research Committee.

The study of the Substitution of Labor and Equipment in Civil Construction has been greatly expanded in response to a request from Mr. McNamara, who has approved the larger effort envisaged in Mr. Baum's memorandum of February 1 (copy attached). It is expected that joint funding of this budget can be arranged with other agencies, such as U.S. AID and CIDA, but it is not clear at this time how much we can expect and the timing of the availability of these resources. As requested by Mr. McNamara, preparations are being made for the full program, and we are therefore requesting a "line of credit" from the Research Committee of up to \$500,000 for FY 74 if necessary, but with the prospect that all of this may not be required. A full report on (the current) Phase II of the study is being prepared, and will be circulated to the Executive Directors in June. This study lays the basis for the Phase III studies proposed for FY 74-75, and a formal proposal will be submitted to the Research Committee by June 1.

<u>Title</u>	<u>Expected Total Cost (FY74 &amp; FY75)</u>	<u>((\$000))</u>	<u>FY 74 Budget</u>
Substitution of Labor & Equipment in Civil Construction Phase III	1,500		500
Highway Design Standards Study Phase III (IBRD Contribution) - Kenya	35		35
- Brazil	30		15
- India	200		100
Feeder Road Study			
Yemen Arab Republic	44.3		25.3
Ethiopia (Continuation of Ethiopia study is expected to be funded entirely from other sources)			
Unidentified (possibly El Salvador)	100		50

Cgk Attachment

✓ D.P. Research  
cc D.P. Education

Mr. W. C. Baum

April 2, 1973

D. S. Ballantine *DB*

Annual Report for FY1973. Bank Research and Studies in Education.  
Innovation as Reflected in Bank-financed Education Projects 1968-1973.

1. The Bank's increased emphasis on the social equity objectives is reflected in the studies and research which are being done by the Education Department. It is also reflected in several of the education projects which have been financed during the current Five-Year Program. Both studies and actual operations reflect a new strategy with increased stress on population strata in the traditional-transitional sectors of the economy which have hitherto been left outside the education systems. In studies and operations we aim at finding the appropriate ways to assist education systems in supporting both economic growth and social justice. This aim has required a comprehensive approach at all levels and areas of formal and nonformal education and training. In doing so we also continue to help our borrowers achieve an often needed greater external productivity and internal efficiency of their educational systems.

CPS Studies

2. The most important study to enlarge our knowledge about ways to assist the traditional-transitional sector of the economy and its often economically and socially underprivileged population groups is the study on nonformal education for rural development which has been conducted by the International Council for Educational Development on the Bank's request. In this study the success and failure of a number of nonformal education programs which have been executed in the developing countries in the 1960's have been reviewed. After an overview of rural education needs, extension and training programs in agriculture have been analyzed. Some African and Asian projects to train artisans and small entrepreneurs for rural areas have been reviewed. Much attention has been paid to the self-help approach to rural development as reflected in the Comilla project in Bangladesh and in Tanzania's system of farm cooperatives. All self-help schemes include important training activities which are generally addressed to illiterate farmers.

3. The rural education study has provided some important insight about the design of rural education-training projects and showed that there are such projects which would merit Bank Group support. It is thus suggested in the study that the Bank should finance integrated community programs which would offer all age groups a wide range of useful general skills and knowledge in health, nutrition, family planning, etc. The target groups for these programs would particularly be illiterate adults and out-of-school rural adolescents. Geographically and often also administratively integrated with these programs would be a strengthening

of farmer training and agricultural extension and the creation of training services for rural artisans, small entrepreneurs and other nonfarm rural occupations. The study emphasizes that these training programs do not work alone. They must be carefully tailored to fit the social-economical context of the rural area concerned and they must be integrated with other development activities particularly in agriculture such as irrigation schemes, credit systems, marketing programs, etc.

4. The financing of eight experimental "community education centers" is included in the recently approved fourth Tanzania education project and the Bank has thus already accepted one of the rural education study recommendations. A further application of the recommendations requires increased cooperation in the Bank particularly between educators and agriculturists to achieve the necessary integration between education and other developmental activities in the rural areas.

5. The need of integration between education and other developmental activities was also illustrated in the Bank's post evaluation of the first education project in Ethiopia which was recently undertaken. This project which was completed some time ago included as a major component a large comprehensive secondary school expansion. Secondary students all over Ethiopia would have the opportunity to study agriculture, commerce, industry, home economics in addition to the traditional academic subjects. The evaluation showed that the project had successfully extended education opportunities in rural Ethiopia to groups which had no previous access to secondary schools; about 75 percent of a test group of students had illiterate parents. But the evaluation showed also that the vocational programs in schools located in areas without much economic development had been less effective. The agricultural interest of the students in areas with promising agricultural development was impressive. But in areas with traditional subsistence farming the agricultural students were hardly more interested in agriculture as a profession than the non-agricultural students.

6. The Ethiopia evaluation study included also a review of other aspects of the students' socio-economic backgrounds than their parents' literacy. Such information about the student background will increasingly be needed as a part of the identification of a country's education needs. The Bank paid in the past restricted attention to the target groups of education projects. The projects were justified by the manpower demands of the modern sector. Current projects are increasingly appraised on the basis of a wider manpower approach but should also be appraised with regard to the population groups which would be offered education and training opportunities through the projects. Such appraisal requires a better knowledge of the social and ethnical composition of the population groups and of the relation between the prospective students' socio-economic backgrounds and their performance



in a formal or nonformal education system. The increased emphasis on target groups has also implications on the content of the teaching and the quality of the education system and these implications are being studied in the Bank.

7. There are two more studies which require attention. The Bank has so far mainly financed formal vocational schools but not found a suitable way to support the nonformal training activities which are being undertaken within the industrial enterprises in some developing countries. The cost effectiveness of such in-plant training is now being studied and it is hoped that a choice between alternative industrial learning methods should be possible in future education financing.

8. The ongoing study on education financing should finally be mentioned. The study will provide the Bank with a wider knowledge about the different ways to finance education in the developing countries and it will illustrate the possible role of the Bank in the "pricing" of education in the developing countries.

Innovative  
Education  
Projects

9. We have already mentioned one project which includes an innovation and a step to support nonformal adult education; the fourth Tanzania project. But there are other projects which have been approved in the past years which show the Bank's widened approach to education and the new trend to cater also to the educational needs of others than those in the modern sector. They illustrate also the current trend to emphasize quality in education as much as quantity.

10. The Ivory Coast education project of FY1970 was a first major effort to reach new target groups and apply a new teaching technology - instructional television. In the Spanish project of the same year the Bank supports a comprehensive education reform which will reach all population groups and make the total Spanish education system more relevant.

11. In the second Ethiopia project of FY1971 the Bank supported a comprehensive education survey conducted by the Ethiopian Government which will presumably lead to economically realistic but wide-reaching education reforms of importance to all population groups in Ethiopia. In the Turkish project of the same year the Bank supports nonformal management and adult technical training. The same project includes also support of the local production of school equipment for primary and secondary education.

12. In FY1972 the Bank supported the establishment of a curriculum development institute in Malaysia which will be responsible for the development of relevant curricula in primary as well as secondary

education. Four other projects of the same year include substantial elements of nonformal agricultural or industrial training for adolescents and adults.

13. The trend towards projects in nonformal education and towards projects with items covering all levels of education has continued in FY1973. The Upper Volta project is a good example. It has a major component of assistance to rural education. One hundred and twenty rural education centers will be financed, 150 cooperative training groups will be organized and further development of training activities for rural development will be studied through the project. The large textbook project in Indonesia is also a new Bank activity. The Bank will support the production and distribution of 138 million textbooks in primary education and finance a program to train 350,000 teachers in the use of the books. In Lebanon the theme of extending educational opportunities more broadly is illustrated by the support to primary education.

14. The major part of the financing of education projects during 1968-73 has been for projects in formal, comprehensive secondary education or in technical and agricultural education. An increasing percentage of the funds has, however, gone to nonformal education or comprised items which will reach target groups at several education levels; curriculum development institutes, instructional television, production of equipment and textbooks.

MGH:rv

April 2, 1973

Professor Remi Clignet  
Department of Sociology  
Northwestern University  
Evanston, Illinois 60201

Dear Professor Clignet:

Thank you for your letters of March 13 and March 23. A response to the first was almost in the mail when we received the second.

I very much enjoyed meeting you during your recent visit to the Bank, and while the seminar seems to have raised a few more questions than it answered, I felt that you made a most important contribution to the process by showing us the necessity for more precise thinking concerning the social aspects of urban projects. Mike will be sending you various documents which have been prepared recently which reflect some of our thinking on the seminar discussions. The fact that we were able to bring the staff of two separate units in the Bank together for an extended meeting of this sort is quite an accomplishment in itself, and the consensus is that the discussions were well worth the time devoted to them.

I am pleased to learn of your formal interest in participating in the research phase of the Dakar monitoring. At the present time, we are receiving comments on the drafts terms of reference and indications of interest from social scientists. We hope to convene a session of interested parties within the next two months in order to evaluate the various comments and move towards a sensible, productive research design. You will be contacted as soon as we decide on the date of that meeting.

The questions you raised concerning monitoring are important and will have to be faced as the research design is developed. I understand that it was agreed that you will participate in the spring supervision mission to Dakar if the status of the information and selection process warrants it. It would be desirable to hold the meeting mentioned above before your mission so that arrangements for Dakar can reflect our most up-to-date thinking on the use of samples for later analyses.

Prof. R. Clignet

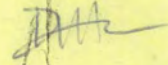
- 2 -

April 2, 1973

Once again, I very much appreciate your participation in the seminar and look forward to continuing collaboration in the future.

With kind regards,

Sincerely,



Douglas H. Keare, Chief  
Urban and Regional Economics Division  
Development Economics Department

MAC:ap

Mr. E.K. Hawkins

April 2, 1973

Douglas H. Keare *DHK*

Research Submissions: Urban and Regional Economics Division  
(April - August 1973)

This is our first brief reply to your request for information. As I indicated to you over the phone on Friday, a considerably more detailed explanation/presentation will go to Mr. Ray before the end of the week:

<u>Item</u>	<u>Status</u>	<u>Funds Required in FY'74</u>
1. Models of Internal Migration	RPO240 To be completed by 6/73	None (*)
2. Urban Data Needs of the IBRD	RPO241 To be completed by 6/73	None (*)
3. Urban Public Finance	RPO270	\$30,000 (*)
4. Site & Services Monitoring		None (#)
5. The Labor Market in a Rapidly Growing Urban Area (with P&HRD)	Already Presented to Research Committee	\$28,750
6. Urban Land/Use/Policies	Under Preparation -- will be ready July-Aug. 1973	\$19,250
7. Urban Low Income Housing	Under Preparation -- will be ready July-Aug. 1973	\$40,000
8. Intermediate/Medium-Sized Cities	Under Preparation -- will be ready July-Aug. 1973	\$15,000
		<u>\$133,000</u>

(\*) This is on the assumption that we will not be asked to stretch out payment on certain items, in effect postponing them from FY 73-FY74. This will be dealt with in my note to Mr. Ray.

(#) According to the agreement between Messrs. Baum & Stern, the FY74 requirement (a total of \$21,500 as presently estimated) will be covered -- in equal amounts in the budgets of the DED and the UPD. This is the case at present -- i.e., we have each allowed for \$10,750 in the Departmental Budget submissions. If these are not retained in the final budget, we will have to come to the Research Committee for a portion of the necessary funds.

Mr. Ernest Stern, Senior Adviser, VDP

April 2, 1973

Wouter Tims, Deputy Director, E PD

Research Proposal: An Analysis of Development Strategies for  
Northeast Brazil

1. This large and complicated research project, submitted to the Research Committee on March 22 and received by me on March 24 is supposed to be on-going in April 1973. If I read it correctly, the total number of man-months to be used for the project (professional only, from all sources) before the current fiscal year is out will be around 35, of which one-quarter from DRC. Given the obviously advanced state of preparation and the tight schedule of work, it would create an untenable situation if anyone would ask for more time to study the proposal and the relevant background documents and to discuss it with persons knowledgeable about Brazil's Northeast and its problems. I feel myself, not an expert on this particular project, put into a position where one can say either "yes" to the proposal or a well-considered "no", based on thorough analysis of the proposal. I would doubt the wisdom of endorsing the proposal, having an awkwardly long list of questions to raise about it (partly because of sheer ignorance, for another part related to my own involvement with a similar project, at about five times the price of this one, for the Northeast of Thailand) to which I cannot possibly expect to find the answers in time. Neither am I capable of taking a negative stand as my questions are not more than just questions. I have the gravest doubts about the proposal, consider it an effort with goals too ambitious to be reached with the proposed limited inputs, and within the time constraints set. But I may be wrong.

2. I would appreciate to be relieved of my duty of appraising this proposal. If there was less pressure to get an approval in a hurry I would certainly be glad to make an effort to acquaint myself more with the subject of the study and its proposed organization and method. Under the existing circumstances I feel unreasonably pressured and prefer to excuse myself from judgment.

cc: Mr. Kuczynski, PP&PRD  
Mr. Murray Ross, LAC, Dept. II  
Mr. A. Ray, Office of VP, DP