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The World Bank
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FORM NO 2234
(6-87)

THE WORLD BANK

ROUTING SLIP	DATE July 29, 1987

FROM THE OFFICE OF THE SENIOR VICE PRESIDENT
POLICY, PLANNING AND RESEARCH

NAME	ROOM NO.
~~PPR Management Staff~~	
Lon:	
~~Pl. keep~~	

	APPROPRIATE DISPOSTION		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

(2 items)

FROM
W. David Hopper

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

WDH - Info

cc Hopper
Baneth
Holsen
Ayres
w/Hague
Liebenthal
Lamb

7/23-14 + DMM

DATE: July 21, 1987

TO: Mr. J. William Stanton, Acting VP, EXT

FROM: Judith Maguire, Division Chief, EXTNJ

SUBJECT: U.S. Trade Bill - Debt Facility Language

Attached is the text of a compromise amendment regarding negotiations for the establishment of an international debt management agency. This amendment was passed by the Senate on Friday during debate on the Trade Bill. The amendment was welcomed by the U.S. Treasury, as it gives them increased flexibility with regard to the initiation of discussions for the establishment of a debt facility. It directs Treasury, prior to the initiation of any such discussions, to undertake a study to determine whether such discussions would:

- increase the discount at which sovereign debt is sold;
- materially increase the probability of default on such debt, or;
- materially enhance the likelihood of debt service failure or disruption.

Once the study has been completed, Treasury is then required to proceed with discussions with industrialized and developing countries to explore the feasibility of establishing a debt facility, unless the study determined that the negotiations would result in one or more of the adverse consequences listed above.

The amendment also prohibits the Secretary from negotiating any agreement which would involve taxpayer funding of any such debt facility.

There is an excellent chance that language similar to this would be included in any compromise bill which emerges from the Trade Conference.

cc: Messrs. Stern, Wood, Vergin, Bock, Shakow, Rappaport, Nicholas

Att.
JM:amg

U.S. LEGISLATION

U.S. Legislation

AMENDMENT NO. 802

(Purpose: To ensure that no taxpayer's money will be used to fund the international debt management authority)

Mr. GRAMM. Mr. President, I send an amendment to the desk on behalf of myself, Senator BOND, and Senator LUGAR.

The PRESIDING OFFICER. The amendment will be stated.

The bill clerk read as follows:

The Senator from Texas [Mr. GRAMM], for himself, Mr. BOND, and Mr. LUGAR, proposes an amendment numbered 802.

Mr. GRAMM. Mr. President, I ask unanimous consent that the reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

On page 470, line 4, strike after "This" all through and including page 473, line 26, and insert in lieu thereof the following: "subtitle may be cited as the "International Debt Management Act".

"SEC. 1712. INTERNATIONAL INITIATIVE.

"(a) DIRECTIVE.—The Secretary of the Treasury shall study the feasibility and advisability of establishing the multilateral financial authority described in this section. If the Secretary of the Treasury determines that initiation of international discussion with regard to such facility would result in (1) material increase in the discount at which sovereign debt is sold, or (2) would materially increase the probability of default on such debt, or (3) would materially enhance the likelihood of debt service failure or disruption, he shall include in his first interim report to the Congress an explanation in detail of the reasons for his determination. Unless such a determination is made, the Secretary of the Treasury shall initiate discussions with such industrialized and developing countries as the Secretary may determine to be appropriate with the intent to negotiate the establishment of a multilateral financial authority, which would undertake to—

"(1) purchase sovereign debt of less developed countries from private creditors at an appropriate discount;

"(2) enter into negotiations with the debtor countries for the purpose of restructuring the debt in order to—

"(A) ease the current debt service burden on the debtor countries; and

"(B) provide additional opportunities for economic growth in both debtor and industrialized countries; and

"(3) assist the creditor banks in the voluntary disposition of their Third World loan portfolio.

"(b) OBJECTIVES.—In any discussions initiated under subsection (a), the Secretary should include the following specific proposals:

"(1) That any loan restructuring assistance provided by such an authority to any debtor nation should involve substantial commitments by the debtor to (A) economic policies designed to improve resource utilization and minimize capital flight, and (B) preparation of an economic management plan calculated to provide sustained economic growth and to allow the debtor to meet its restructured debt obligations.

"(2) That support for such an authority should come from industrialized countries, and that greater support should be expected from countries with strong current account surpluses.

"(3) That such an authority should have a clearly defined close working relationship with the International Monetary Fund and the International Bank for Reconstruction and Development, and the various regional development banks.

"(4) That such an authority should be designed to operate as a self-supporting entity, requiring no routine appropriation of resources from any member government, and no funding, appropriations, contributions, callable capital, financial guarantee, or any other financial support or obligation or contingent support or obligation on the part of the United States Government, without the express approval of the Congress through subsequent law, and no costs to or expense by, either directly or indirectly, any United States person without the consent of such person."

"(5) That such an authority should have a defined termination date and a clear proposal for the restoration of creditworthiness to debtor countries within this time-frame.

"(c) INTERIM REPORTS.—At the end of the 6-month period beginning on the date of enactment of this Act and 12 months thereafter, the Secretary of the Treasury shall submit a report on the progress being made on the study or in discussions described in subsection (a) to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs and the Committee on Foreign Relations of the Senate.

"(d) FINAL REPORT.—Upon the conclusion of the study or of discussions described in subsection (a), the Secretary shall transmit a report containing a detailed description thereof to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs and the Committee on Foreign Relations of the Senate, together with such recommendations for legislation which the Secretary may determine to be necessary or appropriate for the establishment of a multilateral financial authority.

"SEC. 1713. ACTIONS TO FACILITATE CREATION OF THE AUTHORITY

"No funds, appropriations, contributions, callable capital, financial guarantee, or any other financial support or obligation or contingent support or obligation on the part of the United States Government may be used for the creation, operation, or support of an international debt management authority described in this Title, without the express approval of the Congress through subsequent law, nor shall any expenses associated with such facility, either directly or indirectly, accrue to any United States person without the consent of such person. Except as restricted in the preceding sentence, the Secretary of the Treasury shall review all potential resources available to the multilateral financial institutions which could be used to support the creation of an international debt management authority. In the course of this review, the Secretary shall direct—

"(1) the United States Executive Director of the International Monetary Fund to determine the amount of, and alternative methods by which, gold stock of the Fund which, subject to action by its Board of Governors, could be pledged as collateral to obtain financing for the activities of the authority described in section 1712; and

"(2) the United States Executive Director to the International Bank for Reconstruction and Development to determine the amount of, and alternative methods by which, liquid assets controlled by such Bank and not currently committed to any loan program which, subject to action by its Board of Governors, could be pledged as collateral for obtaining financing for the activities of the authority described in section 1712.

The Secretary of the Treasury shall include a report on the results of the review in the first report submitted under section 1712(c).".

Mr. GRAMM. Mr. President, this amendment has been worked out on both sides. The amendment has to do with the international debt management provisions of the bill.

As Members will remember, at 1 o'clock in the morning or whenever it was, at a wee hour, we had a 49-to-50 vote on striking House provisions.

We have now worked out a compromise, I am happy to announce, that I think improves the bill. It leaves in the bill the provisions as introduced. It would also instruct the Secretary to study such facility. It leaves all of the legislative language of the Sarbanes proposal, but it imposes two restrictions.

First, it restricts the ability of the Secretary to negotiate any agreement involving taxpayer funding and mandates that the Secretary make it clear during negotiations that whatever facility is set up there will be no U.S. taxpayer funding involved in that facility.

Second, it allows the Secretary of the Treasury in studying such a facility to make a determination as to whether or not such negotiations would, No. 1, increase the discount at which Third World debt trades; No. 2, increase the likelihood of default; or No. 3, disrupt debt service of existing Third World debt.

I think the compromise that is worked out is a good one. It protects the taxpayers. It protects the Secretary of the Treasury by giving him flexibility to examine whether negotiations for such a facility would result in a material increase in the discounting of Third World debt, or a materially increased possibility of fault, or materially increase the likelihood of debt service failure or disruption. In such event, the Secretary must in fact do a study, and justify to the two Banking Committees why he did not enter into negotiations and discussions. That report would be contained in the interim study that is required in the bill. Finally, let me reemphasize that we have in the bill what I perceive to be and believe to be an ironclad protection to assure that none of the taxpayers' funds will be used as part of this procedure and as part of this Third World debt mechanism unless subsequent legislation is enacted into law.

So, I ask my colleagues to support this amendment.

Mr. MOYNIHAN. Mr. President, the distinguished Senator from Wisconsin, the chairman of the Committee on Banking, Housing, and Urban Affairs is on the floor. I would hope we would turn to him and the learned distinguished Senator from Maryland who wishes to say something.

The PRESIDING OFFICER. The Senator from Wisconsin.

Mr. PROXMIRE. Mr. President, this is a matter of modifying an amendment which was in hot dispute and was decided by one vote last Wednesday night with Senator GRAMM on one side and Senator SARBANES and Senator BRADLEY on the other.

Senator GRAMM has worked out what I think is a good compromise amendment of what he argued for the other night.

It is my understanding that Senator SARBANES, who worked very hard on our committee and is an expert in this area, and Senator BRADLEY, who is a highly respected expert on this, have agreed this language will be satisfactory.

Therefore, as chairman of the committee I am happy to accept it.

The PRESIDING OFFICER. Does the Senator from New Jersey seek recognition?

Mr. BRADLEY. Mr. President, the compromise as it has been worked out is acceptable to me. We hope that the Secretary will move toward negotiation. If he does not, he is required under this amendment to be extremely detailed in his explanation for why he chose not to and I think that it will be enormously important to take a close look at any such determination.

It is our expectation and our hope that he would move toward negotiation on the creation of a facility and that that facility would be able at least to preempt some of the dangers that lurk out there in the world today connected to international debt. It is our expectation and our hope that savings to the facility from the purchase of discounted loans would be passed along, in the form of lower interest rates, to Third World debtors and this in turn could be the catalyst to generate debtor reforms that would lead to greater growth which could lead to greater purchase of U.S. exports and more U.S. jobs.

We believe that this facility is really the only thing on the horizon that is any different from business as usual. And business as usual has brought us to the brink of what I think could be a catastrophe for the world economy.

So, Mr. President, this is an amendment that makes expressly clear that there are no taxpayers' dollars involved without subsequent congressional approval. I find the amendment acceptable. I would, of course, defer to the distinguished Senator from Maryland who is the leader on this issue in the Senate Banking Committee. It is his language and he will ultimately determine whether it is acceptable.

Mr. SARBANES addressed the Chair.

The PRESIDING OFFICER (Mr. FORD). The Senator from Maryland.

Mr. SARBANES. Mr. President, there has been an effort to try to work out an accommodation on these provisions. Senator GRAMM expressed some concerns the other evening when this matter was considered. At that time, of course, his proposal was to strike the title altogether. The Senate did not accept that.

This amendment seeks to address some of the concerns which he raised the other evening. A number of Senators interested in this issue tried to work something out.

The first part of it is that, if the Secretary determines that initiating discussions will result in certain things happening—material increases in the probability of default or the likelihood of debt service failure or the discount at which sovereign debt is sold, those are material increases—why, then, he will make a determination and report back and explain it in detail to the Congress in the first interim report that is called for in this legislation. It is the view of many of us that these discussions will do just the opposite—they will help us to improve the international debt situation.

Second, there is a provision, some additional language, that no funding appropriations, contributions, callable capital, financial guarantee or other financial support or obligation on the part of the U.S. Government should take place without the express approval of the Congress through subsequent law. It was certainly never the intention to suggest that those kinds of undertakings or commitments could be made without subsequent approval by the Congress. This change makes that clear in two sections of this bill.

Mr. President, I join with my colleagues in regarding the proposal as a constructive resolution of the controversy before us, and join in accepting the amendment.

Mr. BOND addressed the Chair.

The PRESIDING OFFICER. The Senator from Missouri.

Mr. BOND. Mr. President, I rise in support of this amendment. I previously filed amendment No. 551 which sought to promote a compromise on this issue. My distinguished colleague from Texas, with the distinguished Senators from Maryland and New Jersey, has worked out a far better compromise. I will not present my amendment because I believe they have accomplished the purpose very clearly.

This amendment is a fine compromise. It reaffirms the desire of some Members of Congress to see additional work on the International Debt Management Agency.

At the same time, it takes into account the fact that, at present, the Authority's long-term funding mechanisms are totally unclear and, indeed, its effectiveness remains undemonstrated.

The amendment takes these two positions into account. It directs the Treasury Secretary to negotiate the establishment of the Authority unless there is a determination that initiation of such discussions would result:

First. In weakening of values in the existing secondary market for such debt paper or

Second. In an increase in likelihood of default or disruption in debt service performance.

Mr. President, I find this amendment to be a very solid compromise and worthy of wide-ranging support. It commits the Secretary of the Treasury to study the IDMA concept itself—which has not yet been sufficiently done—and if this study shows no harm to holders of the debt, legally directs the Secretary to initiate negotiations.

The amendment, like the original bill language, requires interim reports, the first one after 6 months, and then annually, on how these studies are proceeding. A final report is also required.

The bill's current language on financing the Authority specifies that "such an Authority should be designed to operate as a self-supporting entity, requiring no routine appropriation of resources from any member government". The amendment simply strengthens this provision.

Except for the foregoing modifications, the amendment is substantively identical to the current bill language. There are no changes in the associated findings, no changes in the IDMA's proposed operations and no change in its objectives. Indeed, in my view, the only change this amendment does make is in putting the horse and cart in their proper positions.

I would take just 1 minute to point out to my colleagues a similar lesson that we learned about 10 years ago when the Nation and the world were faced with the shock of the OPEC oil embargo and we, the United States, at the fourth general meeting of the United Nations Conference on Trade and Development, signed an agreement to join the Common Fund. The purpose of that Common Fund was to finance what was then believed would be broad array of international commodity organizations. It was intended to stabilize prices to the benefit of producer and consumers alike.

The Common Fund was to be capitalized at roughly $500 million, with the United States' share at about 16 percent. However, for very solid substantive reasons, as well as budgetary reasons, the United States never ratified that agreement. And we have not taken the position that we do not intend to ratify it.

However, the fact that we initially negotiated the agreement, signed it, and held out the prospect that we would participate in it has caused us a great deal of grief since that time, as Third World countries have contended that the United States has reneged on an agreement that would significantly assist them. In the views at least of the developing countries, our premature agreement, without thorough study of whether to get into the Common Fund, resulted in the United

States once again shooting itself in the foot.

With the compromise language which has been worked out by Senators on both sides today, I believe that we have the opportunity to consider this very important and innovative idea, yet we have built in the necessary flexibility and conditions to assure that we do not make a mistake similar to the one that we made 10 years ago.

I commend the Senators who fashioned the compromise and I urge the adoption of it.

The PRESIDING OFFICER. Is there further debate on the amendment?

The question is on agreeing to the amendment.

The amendment (No. 602) was agreed to.

Mr. PACKWOOD. Mr. President, I move to reconsider the vote by which the amendment was agreed to.

Mr. MOYNIHAN. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

7/23 · 3

1. 4m
2. Wdh Info

RECEIVED

87 JUL 23 PM 2:03

SENIOR VICE PRESIDENT

DATE: July 22, 1987

TO: Mr. J. William Stanton, Acting Vice President, EXT

FROM: Harry K. Nicholas, Special Advisor, EXT

EXT: 74541

SUBJECT: Senate Approval of Omnibus Trade Act of 1987

1. The U.S. Senate approved July 21 the Omnibus Trade Act of 1987 (S.1420) by a 71-27 vote after 13 days of debate spread over five weeks. The bill contained numerous provisions of interest and/or concern for the World Bank; the legislation must now be reconciled with a similar sweeping trade bill (H.R. 3) approved by the House of Representatives April 30 and a final version must then be resubmitted to each house of Congress for approval.

2. The provision of the Senate trade bill directly affecting MDBs is the Symms/Nickles FAIR Amendment which would place sharp restrictions on U.S. participation in MDBs if the Banks approved a loan for production of any commodity or mineral regarded as subsidized or in surplus on world markets. The U.S. Executive Directors would be required to oppose such loans by "voice and vote"; if a loan were approved over their opposition, the U.S. would oppose any increase in capital shares of the institution, any replenishment of funding and any borrowing in U.S. markets or currency. In addition any agreed-upon U.S. payments would be reduced by the same proportion of the amount of the loan as U.S. commitments bear to the overall amount of replenishment.

3. This amendment, entitled the Foreign Agricultural Investment Reform Act (FAIR), was proposed by Senators Steve Symms (R-ID) and Don Nickles (R-OK); opposition to it was led by Senators Patrick Leahy (D-VT) and Claiborne Pell (D-RI), chairmen of the Agriculture and Foreign Relations Committees, respectively. A motion to put the amendment aside lost on a vote of 34-58 and the amendment was then accepted by agreement. The test and penalties provided by this amendment are far more severe than similar amendments approved in previous years by the Senate but not enacted into law. Proponents' central argument was that MDBs currently finance production of products which are in surplus and compete with U.S. agriculture and industry. The House bill provides a prohibition against lending for production for export of commodities in world surplus and does not include the severe penalties.

4. U.S. participation in a Multilateral Investment Guarantee Agency (MIGA) is authorized by the legislation, but with several severe restrictions. The agency would be required to adopt regulations providing that it would not support loans to countries that do not have a program of basic human rights for workers nor would it approve loans to develop products for export that would compete with U.S. products or replace any U.S. workers. The House-approved authorization of MIGA does not contain comparable restrictions.

5. Another provision would direct the U.S. Secretary of Treasury to study the feasibility of establishing an International Debt Management Authority to deal with developing nation debt. In the study he must determine whether negotiations for such a facility would increase the discount at which debt is sold, increase the prospect of default or materially enhance the likelihood of debt service failure or disruption. If these are not determined to result, the Secretary must then proceed to negotiate with other nations the establishment of an international debt authority which would purchase foreign debt at discount, negotiate restructured loans with debtor countries to reduce their costs, and assist banks in the voluntary disposition of their Third World loans. The facility would have a close relationship with the International Monetary Fund and IBRD and U.S. Executive Directors would be required to determine what assets of those institutions might be pledged as collateral for financing of the debt facility. The authority should be self-supporting, requiring no appropriations from member countries and no financial support of any kind from the U.S. Government without direct approval of the Congress. The comparable House-passed measure requires no study and directs that the Secretary initiate negotiations.

6. There are numerous provisions in the bill to require "reciprocity" of treatment by U.S. trading partners, to use the proponents' description. Most notable was an amendment offered by Senator John Danforth (R-MO) and approved 87-7. It calls upon the U.S. Trade Representative to identify countries that maintain consistent patterns of import barriers and unfair practices, to negotiate removal of the barriers or agree on alternate trade opportunities, and to impose counter measures if negotiations are not successful.

7. Numerous provisions were directed specifically at U.S.-Japan trade relations. These provide that the U.S. should press Japan to remove all trade barriers; should deny primary dealer status to foreign securities firms if their countries do not allow American firms equal access to their markets, and enable securities dealers and U.S. Bank regulators to hold up foreign acquisition of U.S. banks and holding companies in similar circumstances; and

should press for improved market access in Japan for U.S. supercomputers.

8. Both the Senate and House-passed trade bills are far ranging and contain provisions prepared and recommended by eight committees or more in each house. The House-Senate Conference on resolving differences in the bills is not expected to commence until September (after the August recess of Congress) and will be made more difficult by the multi-committee jurisdiction.

cc: Messrs. Conable, Hopper, Qureshi, Ryrie, Shakow, Shihata,
Stern, Thahane, Wapenhans, Vergin, Vogl, Wood
Mmes. Haug, Maguire

HKN/ahk

DATE March 13, 1987

Mr. Wapenhans

TO Mr. Jose Botafogo G., VPE AS
(through Alexander Shakow, Acting Director, IRD)

FROM H. Martin Koelle, Chief, IRDIO HMK.

EXTENSION 72237

SUBJECT **1987 US Plan of Action re: MDBs and the Environment**

The U.S. Administration recently sent Congress a report (Attachment 1) on its implementation of the Congressional mandate to improve the environmental performance of the multilateral development banks (MDBs). This is the first report of its kind, and it is required under the 1987 Foreign Assistance Act, Section 539.

As you know, environmental groups have lobbied intensively on Capitol Hill over the past few years and have managed to incorporate environmental concerns into aid legislation affecting the MDBs--at first only as recommendations, but last year as binding provisions requiring certain actions from the U.S. EDs, the Treasury and State Departments, and U.S. AID. As we have noticed in the Bank, these activities have already begun. The U.S. ED's office has started a round of meetings with Bank regional staff on environmentally sensitive projects, and AID has prepared an annotated list of MDB projects that are being monitored because of their environmental sensitivity (Attachment 2).

This memorandum summarizes the report to Congress, highlighting the actions we can expect from the U.S. Government in its efforts to influence the World Bank's environmental activities.

1. **Environmental Reorganization.** The U.S. Executive Director (ED) will evaluate the Bank's environmental reorganization and recommend any additional changes which seem appropriate.

2. **Project Monitoring and Evaluation.** The ED will urge appropriate provisions for project monitoring, including possible independent evaluations, wherever there are special concerns about the environmental or indigenous peoples aspects of projects.

U.S. AID is hiring a staff member and will fund consultants to review selected MDB projects in sensitive lending sectors. The Treasury Department and the State Department each have a staff member already working full-time on the environmental performance of the MDBs.

As part of AID's Early Warning System, AID staff will continue meeting with interested environmental groups on a regular basis and brief them on reports concerning the environmental impacts of MDB projects under preparation. AID will discuss with other donor governments the feasibility of creating a cooperative "early warning system" for projects of shared concern.

3. **Environment/Health Ministers.** The ED will, in reviewing projects, ask whether environmental and health ministries have been consulted.

4. **NGOs/Local Communities.** The ED will advocate the participation of NGOs and local communities at all stages of project planning. The ED has already suggested the following measures to increase the participation of non-governmental indigenous peoples and conservation organizations in Bank activities: (a) notation of examples of such participation in appraisal reports; (b) a questionnaire to country program staff to increase their familiarity with these organizations; and (c) an Operations Policy Note.

5. **Local Staff Resources for Project Implementation.** To provide adequate local staff aimed at strengthening natural resource management, the ED will urge that SAL operations identify natural resource management objectives and include policy measures to achieve such objectives in appropriate cases.

6. **EDI.** The State Department has submitted a report on EDI, suggesting increased emphasis on natural resource management matters and proposing a consultant review of EDI course content. The ED will obtain management views and take whatever further steps seem necessary. In addition, the ED will review various possibilities for incentives and training to improve MDB staff performance regarding environmental concerns.

7. **Environmentally Beneficial Projects.** The ED will conduct meetings with Bank staff working on Malawi, Thailand, Brazil, Ecuador, Indonesia and some other countries on issues of energy efficiency/conservation and forest management. The U.S. Administration will later pursue similar discussions in one or two other substantive areas.

8. **Ecological Resource Rehabilitation and Management.** The ED will urge implementation of the Bank's wildlands management policy and Bank research in this area. The U.S. Administration and U.S. environmental groups are discussing guidelines to review MDB projects which may affect crucial wetland systems; these guidelines will be discussed with Bank management.

9. **Board Discussions/Meetings.** Current U.S. legislation calls for regular Executive Board discussion of the Bank's environmental performance. The ED will also urge that project documents be given to the Board four weeks (instead of two weeks as is now the case) before formal Board review.

U.S. legislation instructs the Administration to seek a special Board of Governors' meeting on environmental performance. This Administration document suggests that an alternative might be to hold a seminar on environment and development for Governors during the Annual Meetings.

10. **Diplomatic Initiatives.** The State Department cabled selected embassies to inform their host governments of how the U.S. Government plans to implement legislation and seek appropriate support. A January 1987 cable to other members of the Development Committee explained what the U.S. government hopes to achieve on the environmental issue at the April Development Committee meeting.

The OECD Environment and Development Assistance Committees will sponsor a seminar in late 1987 on environment and development, to which selected developing countries and MDB representatives will be invited. The State Department will follow up on this initiative.

The Treasury Department will give further consideration to the idea of a G-7 working group to review environmental performance of the MDBs twice a year, coinciding with the meetings of the Development Committee.

11. **Treasury's Annual Report.** In November 1987, Treasury will draft the 1988 report on the progress made by MDBs in implementing the environmental reforms called for in U.S. legislation.

Attachments

cc: Mr. Stanton, Ms. Maguire, EXC
Operational Vice Presidents
Mr. Vogl, IPA
Mr. Rovani, DGO
Messrs. Lee and Warford, PPD
Mr. Beckmann, IRD

VLake/HMKoelle/DBeckmann/vl

Attachment 1

Plan of Action for the Implementation of Section 539 of The Foreign Assistance and Related Programs Act, 1987: The Multilateral Development Banks and the Environment

The paper identifies twenty-nine specific provisions requiring action under Section 539. Each item in this paper quotes the relevant legislative provision, then indicates the status of the subject and the required action.

Items 1 through 19, 22 and 24 require actions by one or more of the Executive Directors representing the United States at the banks. In some cases (items 15 through 18) the Treasury or State Departments, in conjunction with the Agency for International Development, must perform some preparatory work before Executive Directors can take action.

Items 20 and 23 require actions by the Treasury Department in consultation with the State Department and the Agency for International Development.

Items 26 through 29 require actions by the Agency for International Development in consultation with the State Department and the Treasury Department. Item 29 does not pertain to the multilateral development banks.

Item 21 requires actions in which the State Department has lead responsibilities and other actions in which the Treasury Department has lead responsibility.

Regardless of the unit that has action responsibility, carrying out these provisions will require close consultations between U.S. agencies and the U.S. Executive Directors.

1. Provision - Staffing and Staff Training

(a) The Secretary of the Treasury shall instruct the United States Executive Directors of the Multilateral Development Banks to -

(1) vigorously promote a commitment of these institutions to -

(A) add professionally trained staff with training and experience in ecology and related areas to undertake environmental review of projects, and strengthen existing staff exercising environmental responsibilities;

Status and Action

-- The World Bank has a staff environmental reorganization plan under consideration, which reportedly includes the addition of staff.

-- The environmental reorganization will be carried out in conjunction with a broad reorganization of the Bank in the coming months.

-- The IDB has selected a senior environmental specialist to review all projects in preparation or implementation over a one year period. The specialist joined the staff in early January.

-- The U.S. Executive Director in the IDB has suggested hiring two environmental analysts and an anthropologist but is not pressing the issue, pending a preliminary evaluation of the work of the senior environmental specialist.

-- The ADB is hiring a technical assistant for 1987 to handle the more routine aspects of the environmental unit's work.

-- With the strong support of the U.S. Executive Director, Bank Management has scheduled consideration of a third environmental professional specialist for late 1987, during the preparation of the 1988 budget.

-- The Agency for International Development is exploring the possibility of funding an additional expatriate position.

-- The AFDB environmental specialist has extended for an additional year to December 1987. The U.S. Executive Director has urged the Bank to expand professionally trained staff, possibly by adding a regional specialist.

-- All the MDBs, except the IDB, have had environmental training activities for staff.

-- Action: During 1987, the respective U.S. Executive Directors shall:

* evaluate the World Bank environmental reorganization for effective changes in the Bank's capacity to identify and act upon environmental and tribal peoples aspects of projects and to encourage policies which improve management of natural resources in borrowing countries; following the evaluation, recommend to Bank Management any additional organizational or staffing changes which appear to him necessary;

* evaluate the capacity to the IDB senior specialist to influence project design and implementation and urge to Bank Management to take any additional steps necessary to strengthen the institution, possibly including the addition of an anthropologist and two environmental specialists; encourage staff training;

* support additional ADB professional staff environmental specialist in 1988 budget discussions;

* support additional AFDB staff environmental specialist, in addition to possible AID-funded advisor.

2. Provision - Management Plans - Line Unit

(B) develop and implement management plans to ensure systematic and thorough environmental review of all projects and activities affecting the ecology and natural resources of borrowing countries, including -

(i) creation of a line unit to carry out such reviews as part of the normal project cycle,

Status and Action

-- All the MDBs, except the IDB, have environmental units charged with reviewing activities.

-- The IDB has an interdepartmental committee which reviews activities. While not a unit, the committee has primary responsibility for carrying out reviews.

-- Action: None required except in the IDB, where the U.S. Executive Director shall evaluate the activities of the senior environmental specialist during 1987 to determine whether further institutional strengthening, including creation of a line unit, is needed.

3. Provision - Management Plan - Advisor to the President

(ii) appointment of an environmental advisor to the Presidents of the Multilateral Development Banks,

Status and Action

-- In the World Bank, the head of the environmental unit is designated as advisor to the Bank. In addition, a member of the President's personal staff monitors environmental matters brought to her attention.

-- The other banks have no comparable official.

-- An advisor to the President should be thoroughly familiar with bank missions and procedures and should be readily accessible to bank staff and informed outside groups.

-- Normally, an experienced existing staff member or an exceptionally well informed outside person could fill such a position, but a trusted relationship with the bank President would appear to be essential.

-- Action: U.S. Executive Directors in the three regional development banks shall suggest the appointment of an environmental advisor to each bank President.

4. Provision - Management Plan - Project Monitoring

(iii) institution of a regular program of monitoring all ongoing projects to ensure that contract conditions and general bank policies to protect the environment and indigenous peoples are fully complied with;

Status and Action

-- In the MDBs, there is a distinction between project "supervision" and project "monitoring." Project supervision takes place in all projects. Project monitoring takes place when specific situations require the collection and analysis of information beyond the customary requirements.

-- This provision of the U.S. legislation is being interpreted to mean that all projects with an evident need should include monitoring provisions for environmental and indigenous peoples elements.

-- The use of independent evaluations, in addition to monitoring, is a technique that should be encouraged whenever especially complex issues are anticipated.

-- Action: U.S. Executive Directors in all the banks shall urge appropriate monitoring provisions, including possible independent evaluations, wherever there are specific or special concerns about environmental or indigenous peoples aspects of projects.

5. Provision - Career Incentives

(C) create career and other institutional incentives for all professionally trained bank staff to incorporate environmental and natural resources concerns into project planning and country programming activities;

Status and Action

-- Specific proposals may vary among the banks. Possibilities include:

* long-term training: identification of graduate schools that offer one year master programs in ecology or natural resource management to which MDB staff could be sent; this could be a significant budgetary expenditure;

* bonuses: a dedicated bonus category for proficiency in designing and implementing environmental activities,

* awards: recognition plus stipend for an annual "best performance,"

* promotion/assignment: a mandate to those who decide promotions or assignments to consider demonstrated capacity to manage environmental issues in making decisions.

-- Overall, U.S. policy related to budgetary and staffing limitations should be adhered to.

-- Action: U.S. Executive Directors shall review possibilities within budgetary and staffing resources, and urge bank management to adopt, and other Directors to support, one or more career incentive programs.

6. Environment and Health Ministers

(2) vigorously promote changes in these institutions in their preparation of projects and country programs that will prompt staff and encourage borrower countries to -

(A) actively and regularly involve environmental and health ministers, or comparable representatives, at the national, regional and local level, in the preparation of environmentally sensitive projects and in bank-supported country program planning and strategy sessions;

Status and Action

-- All the banks have responded that, in appropriate situations, environment and health ministers are consulted but that some borrowers do not have specific environmental agencies.

-- In a noteworthy initiative, the IDB tentatively plans a conference in May 1987 of implementing agencies and environmental agencies in borrowing countries to stimulate cooperation in project activity.

-- Action: In meeting with bank staffs on projects, U.S. Executive Directors shall regularly ask whether environment and health ministers have been consulted. If a persistent pattern of avoidance is evident in a given bank, then the Director shall urge the issuance of a firm administrative directive to require such consultations.

7. Provision - Non-Governmental Organizations

(B) actively and regularly seek the participation of non-governmental indigenous peoples and conservation organizations in the host countries at all stages of project planning and strategy sessions;

Status and Action

-- In the World Bank, the U.S. Executive Director has put forward several suggestions: (1) specific notation of consultations with organizations in the environmental section of appraisal reports, (2) as a step to improve staff familiarity, a questionnaire to country program staff to identify organizations in their countries and to specify organizational capacities to contribute to project planning or implementation, and (3) circulation of an Operations Policy Note reminding staff of the benefits of consulting such organizations.

-- Continued discussion of this item is being held in abeyance until the Bank completes its organizational changes.

-- In the ADB, the U.S. Executive Director put forward the same suggestions as in the World Bank, with a response that there very few organizations in the region which could participate usefully in project work.

-- The U.S. Executive Director subsequently provided a list of regional non-governmental organizations obtained from the World Wildlife Fund.

-- In the IDB, the U.S. Executive Director put forward similar suggestions as in the World Bank.

-- In the AFDB, the U.S. Executive will support a staff proposal for greater contact with these organizations when the Board reviews the Bank's environmental procedures and practices in late January, 1987.

-- Action: While reiterating our specific suggestions, U.S. Executive Directors shall devise and urge specific additional steps in each bank to encourage contacts with nongovernmental organizations. After urging appropriate steps, they should seek Washington assistance to gather in capitals to the extent needed.

8. Provision - Local Communities

(C) fully inform local communities and appropriate non-governmental organizations with interest in local development projects of all project planning sufficiently in advance of project appraisal to allow informed participation of local communities and non-governmental organizations that may be adversely affected by them;

Status and Action

- -- Action: U.S. Executive Directors shall implement this provision in parallel with the provision related to non-governmental organizations (see item 7).

9. Provision - Multidisciplinary Planning Process

(3) establish a regular integrated multidisciplinary planning process to conduct land use capability analyses in reviewing potential loans; such plans shall include, but not be limited to, a review of ongoing or other potential resource utilization efforts in and adjacent to the project area;

Status and Action

- -- As a rule, this provision describes the approach that the banks generally take in developing projects which involve significant use of land as a resource.
- -- The intent of the provision appears to be to encourage wider use of land use planning analysis and mechanisms.
- -- There are instances when a multidisciplinary team may not include all the disciplines that have been desirable.
- -- In most instances, multidisciplinary teams consist of at least the following specialties: biologist, ecologist, soil scientist, forester, economist, civil engineer (transportation and structural), hydrologist, sociologist (or anthropologist), regional planner (or geographer), and horticulturalist.
- -- Action: U.S. Executive Directors shall urge staff and management to employ land use planning analytical techniques when discussing agriculture or hydroelectric generating projects or other projects where land use is a significant input into project planning. If it appears that multidisciplinary land use planning is not being regularly employed, Directors shall approach management on this subject and advise Washington agencies whether an approach to member country capitals for support would be useful.

10. Provision - Ecological Resource Rehabilitation and Management

(4) vigorously promote a commitment of these institutions to develop and implement plans for the rehabilitation and management of the ecological resources of borrower nations on a sustained basis. Special attention shall be paid to soil conservation, wildlife, wetlands, estuaries, croplands, grasslands, forests, and fisheries, including -

(A) long-term programs of research designed to manage ecosystems properly;

Status and Action

-- The World Bank wildlands management policy, announced in June 1986, is the single most important initiative that may help meet the intent of this provision. The policy states that:

* the Bank will normally decline to finance projects that convert lands of special concern, including national parks, biosphere reserves, or other areas that maintain exceptional biological diversity or that provide key environmental services;

* if a project involves wildlands other than those of special concern, the Bank will cite the project, where possible, on already converted lands;

* if conversion of existing wildlands are necessary, the Bank will site projects on less valuable wildlands; and

* whenever significant amounts of wildlands (e.g., more than 100 square kilometers) will be converted, the Bank will compensate for this loss by conserving an equivalent amount of ecologically similar areas elsewhere.

-- The regional banks should adopt similar policies.

-- Effective implementation of a wildlands management policy will not follow automatically with adoption. Encouragement to country and project staff is essential.

-- All the banks support long-term research by outside organizations to a modest degree. There is no apparent effort to assure that the research systematically covers environmental dimensions.

-- Action: U.S. Executive Directors shall urge that the regional banks develop and/or implement wildlands management policies. In appropriate situations, Directors in the MDBs shall urge project and country staff to incorporate wildlands management components or projects which protect and conserve unique habitats. In addition, Directors shall urge that bank environmental staff specialists initiate bank research in these fields, take part in the preparation of the bank's research program and review specific research proposals to assure that environmental elements are specifically covered in sponsored research. Finally, U.S. Directors shall ask management to identify research activities that are being supported during the current year and that have a bearing on ecological management.

11. Provision - Local Staff Resources for Project Implementation

(B) provision of adequate extension workers, park rangers, social forestry experts, and other appropriate personnel; ...

Status and Action

-- Adequate local staff (and budget) resources in developing countries is a general problem in periods of budgetary stringency.

-- Longer term growth prospects would be served by ensuring that natural resource management units, especially if connected to project activity, were more sheltered from budgetary pressures than units which contribute less to long-term productivity growth.

-- World Bank structural and sectoral adjustment (SAL) loans, and the policy dialogues precedent to such operations, are designed, in part, to address the policy framework needed to sustain growth. Systematic assessment of natural resource management requirements could be incorporated as part of SAL operations, and could be associated with commitments to provided needed staff and budget resources in some cases.

-- The Bank's wildlands management policy also calls for providing adequate staff resources.

-- Action: U.S. Executive Directors shall urge that bank policy dialogues seek to preserve or enhance operational effectiveness of units responsible for natural resource management or preservation. In the World Bank, the U.S. Executive Director shall urge that SAL operations identify natural resource management objectives and include policy measures to achieve such objectives in appropriate cases.

12. Provision - Training for Environmental Science and Land Use Planning

(C) improved programs of training in environmental science and land-use planning;

Status and Action

-- MDB lending for education emphasizes primary, secondary or vocational programs.

-- As an initial step to implement this provision, it may be useful to survey education projects.

-- If practical, MDB education projects should include appropriate elements in curricula to ensure training in environmental science and land use planning.

-- In addition, projects with significant effects on the environment or on indigenous peoples should include training whenever appropriate.

-- The World Bank Economic Development Institute is addressed in item 17, below.

-- Action: U.S. Executive Directors shall interview education project staff to determine whether environmental science and land-use planning are incorporated in academic curricula, or how such subjects might be incorporated. Directors shall urge appropriate project activity.

13. Provision - Environmentally Beneficial Projects

(5) vigorously promote a commitment of these institutions to increase the proportion of their programs supporting environmentally beneficial projects and project components, such as technical assistance for environmental ministries and institutions, resource rehabilitation projects and project components, protection of indigenous peoples, and appropriate light capital technology projects. Other examples of such projects include small scale mixed farming and multiple cropping, agroforestry, programs to promote kitchen gardens, watershed management and rehabilitation, high yield wood lots, integrated pest management systems, dune stabilization programs, programs to improve energy efficiency, energy efficient technologies such as small scale hydro projects, rural solar energy systems, and rural and mobile telecommunications systems, and improved efficiency and management of irrigation systems.

Status and Action

-- The first year after this suggestion was put forward in the December 1984 House Banking Committee report, State/OES agreed to develop an approach to encourage environmentally beneficial projects. Initial efforts centered on identifying potentially beneficial irrigation projects or components.

-- During 1986, the effort has broadened to encompass tropical forest projects and energy conservation.

-- Some specific developments:

* Using the World Resources Institute's Tropical Forest: Call to Action State and Treasury developed a plan for approaching the MDBs to discuss investment ideas and plans in tropical forests. Initially, discussions were to be with the World Bank.

* In March, 1986, the Secretary of the Treasury and the President of the IBRD exchanged letters to set the framework for subsequent discussions with the Vice President for Operations Policy and with the six regional Vice Presidents.

* The U.S. Executive Directors in the World Bank and, subsequently, in the African Development Bank met with staff in September to discuss forestry investment in Nigeria.

* In November, the U.S. Executive Director in the World Bank met with staff to review the potential for addressing energy efficiency and conservation and forestry management in the Ivory Coast. The U.S. Executive Director in the African Development Bank has been instructed to have parallel discussions with AFDB staff.

* Further meetings on forestry investment and energy conservation have been requested with World Bank staff responsible for programs in Malawi, Thailand, Brazil, Ecuador and Indonesia.

-- Action: The U.S. Executive Director at the World Bank shall complete meetings on five pending countries as soon as possible. He shall identify and carry out further meetings during 1987 to discuss forestry and energy conservation issues. The Treasury Department shall then instruct the respective regional bank Executive Directors to discuss these subjects with the respective staffs. The Treasury Department, in consultation with the State Department and the Agency for International Development, shall consider one or two additional substantive areas for further discussions on beneficial projects with the banks.

14. Provision - Energy Efficiency Lending

(6) place an increased emphasis on upgrading the efficient use of energy and other resources by borrowing nations. Such efforts shall include, but not be limited to -

(A) significantly increasing the proportion of energy project lending for energy efficiency improvements, and decentralized small scale facilities such as solar, wind or biomass generating facilities; and

Status and Action

-- Our approaches related to energy conservation (see item 13) should encompass these items.

-- Action: In canvassing for energy conservation projects, U.S. Executive Directors shall probe for the possibilities for efficiency improvements and for small scale energy generation.

15. Provision - Compare Energy Generation/Energy Conservation

(B) conducting an analysis of the comparative costs of any new energy generating facilities with the cost of increasing the energy efficiency in the project service area;

Status and Action

-- The concept of increasing energy efficiency in the project service area -- apart from avoidance of subsidized use through price distortions -- requires some further definition.

-- One frequently mentioned possibility is lending by the electrical utility to users to finance efficiency improvements or providing energy conservation services. These activities may modify the character of the utility from purely a seller of energy to a more diversified enterprise.

-- The State Department will coordinate the development of an issue paper to probe the comparative costs of generating and conserving energy.

-- Action: The U.S. Executive Director at the World Bank shall discuss the concept of a diversified public utility with the central Office of Energy, to explore the possibility of expanding operations to include financial and other services. After the analytic questions are developed by the State Department, U.S. Executive Directors shall investigate energy generating investment plans to determine the scope for energy efficiency investments.

16. Provision - Wetlands

(7) seek a commitment of these institutions to fund projects to protect and preserve crucial wetland systems and to avoid expenditures for projects designed to convert major wetland systems. Development proposals which may affect these areas should be the subject to detailed impact assessments so as to avoid detrimental impacts to fisheries, wildlife and other important resources;

Status and Action

-- The Treasury Department has invited suggestions from U.S. environmental groups for guidelines to review projects which may affect wetlands.

-- The guidelines would consist of a brief paper which may be discussed with bank staffs and a longer background paper which can serve as a primer for the staff on wetlands.

-- Action: The Treasury Department, in conjunction with the State Department and the Agency for International Development, shall work with environmental groups in the coming weeks to develop the papers. The U.S. Executive Directors will then be instructed to raise the subject with bank management, using the papers as a basis for discussion.

17. Provision - Economic Development Institute

(8) vigorously promote the establishment within the Economic Development Institute of the World Bank of a component which provides training in environmental and natural resource planning and program development;

Status and Action

-- The State Department has submitted a report on EDI suggesting increased emphasis on natural resource management matters and proposing a consultant review of EDI course content.

-- Action: Treasury will forward the paper to the U.S. Executive Director for forwarding to Management. After obtaining Management views, the Director shall take the necessary steps to achieve the objective of this provision.

18. Provision - Board Discussions

(9) regularly raise, at meetings of the Board of Directors of these institutions, the issue of their progress in improving their environmental performance, with specific focus on the measures set forth above; ...

Status and Action

-- The previous year's legislation called for special meetings of the Board. To recapitulate:

* In the World Bank, the April 30 Board meeting on the FY87 budget focused largely on the environmental aspects of Bank activities, and included suggestions for a review of the Bank's organizational structure to deal with environmental issues. The review is now being carried out. The Board meeting was preceded by separate informal meetings with developed and developing country representatives on April 21.

* On December 10, a Board seminar discussed environmental aspects of the Bank program and supported Management steps to review Bank structure and the economics of natural resource management.

* In the IDB, the U.S. Executive Director sought support for environmental reforms in informal meetings with senior management officials (June 12), developed country representatives (September 22) and developing country representatives (October 6).

* The U.S. Executive Director also sought a series of seminars on sensitive lending sectors. On November 21, a Board seminar on environmental aspects of hydro-electric dams thoroughly reviewed these aspects.

* Further seminars on the environmental aspects of lending for agriculture and transportation have been requested.

* In the ADB, the Board reviewed environmental policies and procedures on January 23, agreeing to an adjustment in procedures which will shift more of the routine work to project staff and will allow environmental professionals to concentrate on more complex issues.

* In the AFDB, the Board will meet February, 1987 to approve priorities for Bank staff environmental work and suggesting additional staff for the central environmental unit.

-- This year's legislation omits the requirement for special meetings, but requires regular Board discussion of progress toward improved performance.

-- Action: The member agencies of the Working Group for Multilateral Assistance will advise Directors in writing of opportunities to discuss environmental issues in project or policy contexts. U.S. Directors may include an account of Board discussions during the year in their required report (item 23).

19. Provision - Document Distribution Four Weeks Before Board

(10) require at least a four week project review period between the time when staff recommendations are presented to the board and board action is taken on any projects.

Status and Action

-- The United States has sought to increase the elapsed time between document issuance and Board action in past years and has encountered resistance. The argument has been that further delays risk cost changes and delays in loan signature and effectiveness and in project implementation.

-- The two weeks currently provided to U.S. agencies is not adequate for their internal needs.

-- The four week review period is being sought by the Congress for two reasons: to allow the Congress/U.S. NGOs to become involved in selected loan proposals if they choose and to encourage member governments to review projects in capitals prior to board action.

-- An additional benefit to member governments from earlier document distribution would be the improved opportunity to coordinate with other governments on the full range of MDB issues.

-- Action: U.S. Executive Directors shall urge colleagues and management to increase the two week period to four weeks. If necessary after these initial discussions, the Departments of State and Treasury shall consult with key governments though diplomatic channels.

20. Provision - U.S.G. Evaluation of Proposed Loans

(b) The Secretaries of Treasury and State, and the Administrator of the Agency for International Development, shall ensure and coordinate a thorough evaluation within the U.S. Government of the potential environmental problems, and the adequacy of measures to address these problems, associated with all proposed loans for projects involving large impoundments of rivers in tropical countries; penetration roads into relatively undeveloped areas; and agricultural and rural development programs. The potential environmental problems to be addressed in such evaluations shall include those relating to deterioration of water quality; siltation; spread of waterborne diseases; forced resettlement; deforestation; threats to the land, health and culture of indigenous peoples; topsoil management, water logging and salinization in irrigation projects; and pesticide misuse and resistance.

Status and Action

-- A restatement of a similar provision in the 1986 legislation, this subsection describes the types of projects likely to be environmentally sensitive and mandates thorough evaluation by U.S. agencies through the established inter-agency process.

-- Prior to enactment of the legislation in 1985, steps to strengthen inter-agency review included:

* addition of State/OES to the inter-agency review process,

* a new staff position in State/OES to concentrate on MDB/environment issues,

* addition of questions regarding environmental aspects of projects to early warning cables,

* hiring one Treasury staff person with environmental responsibilities specifically addressed in the position description, and

* assignment of Treasury economist to serve as liaison to nongovernmental organizations which may have project specific information.

-- AID is taking steps to strengthen its Washington-based review of projects by:

* hiring an additional staff member at the GS-14 level to review projects, selecting some for in-depth review at an early stage, and
* providing funds to employ consultants to review selected projects.

-- Action: The Departments of State and Treasury and the Agency for International Development shall continue to seek ways to strengthen the interagency review of projects in sensitive lending sectors. AID is to complete the hiring for its new staff position.

21. Provision - Diplomatic Initiatives

(c) The Secretary of the Treasury and the Secretary of State shall regularly undertake and continue diplomatic and other inITiatives in addition to those mentioned in subsection (a)(5) (sic), to discuss measures to improve the environmental performance of the Multilateral Development Banks with the representatives to these institutions and with ministries from which they receive their instruction, of borrower and donor nations. In particular, joint efforts shall be undertaken with borrowers and donors to ensure cooperative implementation of the reforms described above.

Status and Action

-- To recapitulate significant efforts of recent months:

* In April, selected U.S. embassies were asked to approach appropriate government officials to seek support of their governments for reform measures during the April 30 World Bank Board meeting on the FY87 budget.
* During the IMF/IBRD Annual Meetings, the State Department held bilateral meetings on environmental issues with members of the delegations from six countries: Brazil, China, Japan, Canada, France and Germany.
* The U.S. Delegation to the OECD Environment Committee proposed a project to prepare voluntary guidelines that OECD members could use in reviewing the environmental aspects of MDB projects.

-- Two initiatives are currently underway and will play out in the coming months:

* The IMF/IBRD Development Committee will discuss "Environment and Development" in April.

* The OECD Environment and Development Assistance Committees will sponsor a seminar in late 1987 on environmental assessment and development, to which selected developing countries and MDB representatives will be invited.

-- One developed country representative to the IMF/IBRD Annual Meetings suggested a G-7 working group to review environmental aspects of the banks, twice annually to coincide with Development Committee meetings. This suggestion is under consideration.

-- Action: (a) Treasury, in consultation with State and AID, shall prepare a cable in January to Development Committee members identifying what we hope to achieve in April meeting.

(b) Treasury shall consider suggestions to cooperate with U.S. NGOs in preparation for the Development Committee meeting.

(c) Treasury shall decide on G-7 suggestion.

(d) State shall prepare cable to selected embassies to inform their host governments of how we plan to implement legislation and seek appropriate support.

(e) State shall follow up on the OECD Environment Committee initiative.

(f) State shall consider a possible high level initiative to the Government of India and other key governments on selected issues.

22. Provision - Special Meeting of the Board of Governors

(d) The Secretary of the Treasury and the Secretary of State shall propose formally that the Boards of Governors of each Multilateral Development Bank hold a special meeting within the next twelve months, focused specifically on environmental performance and better implementation of multilateral development policies designed to protect the environment and indigenous peoples.

Status and Action

-- A special Governor's meeting would be so exceptional as to signal systemic crisis. The agenda probably could not be held to environment alone.

-- One possible variation might be holding a seminar on Environment and Development for Governors at the time of the regularly scheduled annual meetings.

-- Action: U.S. Executive Directors shall propose a special meeting to management and other Directors following the April Development Committee meeting and shall report their responses.

23. Provision - Annual Report

(e) The Secretary of the Treasury shall prepare and submit to the Committees on Appropriations by January 15, 1987, and annually thereafter, a report documenting the progress the Multilateral Development Banks have made in implementing the environmental reform measures described in paragraphs one through eight of subsection (a). (N.B.: Items one through seventeen in this plan.)

Status and Action

-- The initial report shall combine information on implementation of the 1986 legislation and the implementation plan for the 1987 legislation. It will not be possible to report on implementation of the 1987 legislation.

-- Action: Treasury shall prepare a draft 1988 report to be circulated for inter-agency clearance by November 30, 1987. U.S. Executive Directors shall report on the status of their efforts in their respective institutions by November 15, 1987.

24. Provision - Staffing in World Bank Regional Offices

(f) In the report of the Secretary of the Treasury required by subsection (e), regarding the implementation of staffing measures suggested in subsection (a)(1)(A), the Secretary of the Treasury shall specifically discuss the progress of the International Bank for Reconstruction and Development in upgrading and adding environmentally trained professionals to each of its six regional offices to review projects for their prospective ecological impacts.

Status and Action

-- The environmental reorganization plan under consideration in the World Bank (item 1) reportedly includes consideration of this proposal.

-- Action: Treasury shall include specific reference to this proposal in its 1988 report.

25. Provision - The AID Early Warning System: Mission Reports

(g) The Administrator of the Agency for International Development in conjunction with the Secretaries of Treasury and State shall -

(1) instruct overseas missions of the Agency for International Development and embassies of the United States to analyze the impacts of Multilateral Development Bank projects proposed to be undertaken in the host country well in advance of a project's approval by the relevant institution. Such reviews shall address the economic viability of the project; adverse impacts on the environment, natural resources, and indigenous peoples; and recommendations as to measures, including alternatives, that could eliminate or mitigate adverse impacts. If not classified under the national security system of classification, such information shall be made available to the public;

Status and Action

-- The provision essentially codifies existing practice. AID missions are asked to identify significant problems in proposed MDB projects.

-- Action: AID staff has met and shall continue to meet with interested environmental organizations on a regular basis and to brief them on mission reports relating to projects under preparation.

26. Provision - AID Early Warning System: List of Projects

(2) in preparation of reviews required by subsection (g)(1), compile a list of categories of projects likely to have adverse impacts on the environment, natural resources, or indigenous peoples. The list shall be developed in consultation with interested members of the public and made available to the Committee on Appropriations by December 31, 1986 and semi-annually thereafter; and

Status and Action

-- AID staff has prepared the first list, in consultation with Treasury, State and U.S. environmental NGOs.

-- Action: AID Administrator will continue to report every six months as required with clearances from Treasury and State.

27. Provision - AID Early Warning System: Sharing with other Donors

(3) study the feasibility of creating a cooperative "early warning system" for projects of concern with other interested donors.

Status and Action

-- Various options to implement this provision are under consideration.

-- AID is also exploring the receptivity of other donors to enhancing their system, perhaps in collaboration with the United States, in coordination with Treasury and State.

-- After information on other donor systems is obtained, options for a cooperative system will be examined in coordination with Treasury and State.

-- Action: AID shall discuss these issues with other governments as opportunities arise.

28. Provision - AID Early Warning System: Instructions to Directors

(h) If a review required by subsection (g)(1) identifies adverse impacts to the environment, natural resources, or indigenous peoples, the Secretary of the Treasury shall instruct the United States Executive Director of the appropriate Multilateral Development Bank to seek changes to the project necessary to eliminate or mitigate those impacts.

Status and Action

-- This provision is drawn fairly tightly and, in effect, allows field AID missions to instruct U.S. Executive Directors -- a point to which Treasury objected.

-- Presumably Washington agencies may still have an independent opinion as to what constitutes an adverse impact.

-- Action: No general action is required. Procedures will be established in connection with the first case.

29. Provision - AID Advisory Committee

(i) The Administrator of the Agency for International Development shall appoint a Committee on Health and the Environment to examine opportunities for assisting countries in the proper use of agricultural and industrial chemicals and processes and alternatives such as integrated pest management. The committee shall be broadly representative of industry, agriculture, labor, health and environmental interests and shall report its preliminary finding to the Congress before hearings on the fiscal year 1988 budget.

Status and Action: This provision does not apply to the multilateral development banks.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

Attachment 2

OFFICE OF
THE ADMINISTRATOR

31 DEC 1986

The Honorable Jack F. Kemp
Subcommittee on Foreign Operations
Committee on Appropriations
House of Representatives
Washington, D.C. 20515

Dear Congressman Kemp:

Pursuant to the requirement of Section 539(q) of the Foreign Assistance and Related Programs Appropriations Act, 1987 (as included in Public Law 99-591), enclosed is a list of multilateral development bank projects that we are investigating to see whether they are likely to have an adverse impact on the environment, natural resources or indigenous peoples.

I want to assure you that we at A.I.D. agree with and intend to comply fully with both the letter and spirit of this directive designed to ensure that multilateral programs supported by the U.S. assist development in the most environmentally protective and responsible manner possible.

We would be happy to provide you with any additional information you might require in this regard. On behalf of all of us at AID, I want to wish you a happy, healthy, and successful New Year.

Sincerely,

Jay F. Morris
Acting Administrator

Attachment a/s

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON. D.C. 20523

The Honorable Robert W. Kasten, Jr.
Subcommittee on Foreign Operations
Committee on Appropriations
United States Senate
Washington, D. C. 20515

Dear Senator Kasten:

You recently requested additional information regarding the multilateral development bank projects which we are investigating to ascertain whether they are likely to have an adverse impact on the environment, natural resources or indigenous peoples. The enclosed information responds to this request and supplements the list of projects provided to you on December 31 in response to Section 539(g) of the 1987 Foreign Assistance Appropriations Act. It is accurate to the best of our knowledge but, as you know, both the status and design of MDB projects may change rapidly.

The basic data regarding loan amounts, total project cost, and the description of the project are taken, in most cases, from the respective MDB's monthly or quarterly operational documents.

The concerns cited in this list do not reflect a judgement on the part of the USG regarding a particular issue or project. As we have indicated previously, the fact that a project is on this list means that an official in the USG has raised a N credible issue about a possible environmental problem which merits further investigation. In most cases we have not progressed sufficiently far in our analysis to be sure that a problem exists or to be knowledgeable about alternatives.

As a result of information learned during our follow-up work on projects, we are now dropping three projects from the list. The first is the IBRD India Cauvery Delta Modernization project (1) which has been dropped from the Bank's planned lending program for India. The second project is the IDA Ghana Refinery and (2) Distribution Project which is being dropped because the USG agencies saw no serious problems after consultations with Bank staff. The third project is the Jordan Education Sector (3) project which we are dropping because the Bank's plans appear adequate to address our concerns. Several other projects at

28 projects
- 19 IBRD/IDA

LIST OF UPCOMING MDB PROJECTS WITH POSSIBLE ENVIRONMENTAL ISSUES

Projects Involving Large Impoundments of Rivers in Tropical Countries

1. **IBRD Pakistan Kalabagh Dam**

Projected IBRD Funding: $150 Million
Total Project Cost: Unavailable

Description: This project, if designed at its contemplated scale, would finance dam construction and the installation of a 2,400 megawatt hydroelectric capacity. It is a multipurpose project for power generation, irrigation and water control. The executing agency is Pakistan's Water and Power Development Authority.

Issues: Concerns have been raised regarding the anticipated large-scale resettlement, the flooding in the Northwest Frontier Province and the possible exacerbation of waterlogging and salinity in the project. Concerns have also been raised regarding economic and financial issues.

N

Status: Revised feasibility studies are being completed to deal with the environmental and social issues, particularly regarding resettlement. These concerns have been discussed with Bank staff and the USG is awaiting the results of the feasibility studies.

2. IBRD/IDA India Narmada River Development Projects

Projected IBRD/IDA Funding: $420 Million
Total Project Cost: $1.203 Billion

Description: The World Bank is planning two further projects to deal with the development of the Narmada River basin: a $350 million IBRD loan for a dam and power project and a $70 million IDA loan for a resettlement and rehabilitation project. The first project will support the construction of the Narmada Sagar dam and hydropower station to generate 1,000 megawatts of power and to evaluate future irrigation of about 300,000 hectares of land. Total project cost is estimated at $953 million. The second project will finance the resettlement of about 100,000 people affected by the Narmada Sagar reservoir. Total project

N

study being done by the Government of Ecuador on electricity expansion.

5. IDB Guyana Tumaturmari Hydroelectric Project

Projected IDB Funding: $60 Million
Total Project Cost: Approximately $250 Million

Description: This project would finance a hydroelectric project on the lower Potaro river.

Issues: Concerns have been raised regarding the adequacy of the IDB's assessment of the environmental impact of the project, including the effects on the land and wildlife in the project area.

Status: The project is not included in the most recent IDB program of activities for 1986 and beyond, so its future status is uncertain.

6. IBRD China Three Gorges Dam

Projected IBRD Funding: Unavailable
Total Project Cost: Unavailable

Description: The project would finance a 150 to 170 meter dam in the Three Gorges region of the Yangtze River basin which would provide flood control, electrical power and inland navigation. The executing agency would be China's Ministry for Water Resources and Electric Power.

Issues: Concerns have been raised regarding the resettlement the project would require as well as the project's effects on a number of key areas including fisheries, rare and endangered species, and inland navigation. Concerns have also been raised regarding the hydrological and economic effects of altering sedimentation regimes.

Status: A feasibility study is scheduled for completion in the summer or fall of 1987. We have discussed the issues with Bank staff, who indicate that they will be dealt with in the forthcoming study.

7. IBRD/IDB Colombia URRA II Dam

Projected IBRD/IDB Funding: Unavailable
Total Project Cost: Unavailable

9. IBRD India Cauvery Delta Modernization Project

Projected IBRD Funding: $90 Million
Total Project Cost: Unavailable

X

This project is no longer in the Bank's lending program for India and it will be dropped from future lists.

10. IDA Haiti Tree Planting and Forestry Project

Projected IDA Funding: $11 Million
Total Project Cost: Unavailable

Description: The project was to finance fuelwood and multipurpose tree planting. The executing agency was to be Haiti's Ministry of Agriculture.

Issues: Concerns have been raised about whether the government's policies might lead to destructive land use and exploitation.

X

Status: We understand from the Bank staff that this project has been dropped from the Bank's lending program for Haiti. The Bank's most recent monthly operational summary says that reporting will be discontinued in the upcoming monthly summaries. Environmental issues have nevertheless been raised with the Bank. This project may be dropped from future lists if no future design activity occurs.

11. IDA Burma Groundwater II Project

Projected IDA Funding: $20 Million
Total Project Cost: Unavailable

Description: The project will expand diversified crop production and farm incomes in Taze/Ye-U, Budalin and Pale/Salingyi by increasing the irrigation area from 400 acres to 43,500 acres, using groundwater resources.

Issues: Concerns have been raised regarding the need for careful analysis in the project design of effects on such areas as drinking water, health, coastal waters and aquatic life.

X

Status: According to the Bank's most recent monthly operational summary, the project has been moved to the Bank's fiscal year 1989 reserve lending program and further Bank reporting in their monthly operational summary will be discontinued.

12. IDA Burma Tank Irrigation II.

page 6. missing

resettlement plan. Concerns have been raised with Bank staff, and we will review the results of the appraisal mission.

17. IDA Nepal Babai Irrigation Project

Projected IDA Funding: $37 Million
Total Project Cost: $64.5 Million

Description: The project would construct headworks on the Babai River and irrigation and drainage facilities as well as strengthening extension services. The executing agency would be Nepal's Ministry of Water Resources.

Issues: Concerns have been raised concerning the possible effect on the Royal Bardia Wildlife Reserve, the role of the project in the Bank's country assistance strategy and the effect on riparian states.

Status: According to the Bank's monthly operational summary, project processing is delayed indefinitely due to the riparian issue and country assistance strategy considerations.

18. IBRD Yugoslavia Lonjsko Polje Drainage Project

Projected IBRD Funding: About $78 Million
Total Project Cost: Unavailable

Description: The project would provide drainage for about 49,000 hectares in Croatia, including pumping stations, on-farm development, construction and farm equipment. The executing agency is Yugoslavia's Sava Basin Water Organization.

Issues: Concerns have raised regarding the project's possible effects on the wetlands, on plant and animal species, and on fisheries. Concerns have also been raised regarding the preparation of an environmental assessment.

Status: The appraisal of the project has been completed, but the project awaits a decision from the borrower on whether to proceed. Concerns have been conveyed to Bank staff.

19. IBRD Indonesia Transmigration Projects

Projected IBRD Funding: Unavailable
Total Project Cost: Unavailable

Description: Indonesia's transmigration program aims to resettle individuals from the densely populated islands - notably Java - to the much more sparsely settled outer islands

Issue: A question was raised regarding emissions from the facility. The implementing entities will be Ghana's GOIL/GHAIP and the Ministry of Fuel and Power.

Status: After consultations with Bank staff, the USG agencies see no further reason to be particularly concerned about this project and it will be dropped from future lists.

22. IBRD Thailand Energy IV Project

Projected IBRD Funding: $60 Million
Total Project Cost: Unavailable

Description: This project could consist of the expansion of the LPG plant, products pipelines and a new gas pipeline to Southern Thailand. The implementing agency will be the Petroleum Authority of Thailand.

Issues: A concern has been raised regarding the need to develop and follow the results of the upcoming Eastern Seaboard environmental plan.

Status: Discussions on the project scope are in progress. We are awaiting the release of the environmental assessment by the government.

23. IDB Dominican Republic Rosario Gold Sulphur Project

Projected IDB Funding: $280 Million
Total Project Cost: $441.0 Million

Description: This project will finance the processing of gold and silver, apparently due to the expansion of an existing mine.

Issues: Concerns have been raised regarding the need for an assessment of key environmental factors.

Status: Concerns have been discussed with the IDB. The government is now considering whether to proceed with this project request. The IDB says that no further design is currently proceeding on the project.

24. IDB Ecuador Paute C Transmission Project (Originally Entitled Additional Financing for INECEL)

Projected IDB Funding: $60 Million
Total Project Cost: Approximately $100 Million

serious concerns about the project, and the U.S. Executive Director has been instructed to oppose it if it comes up for a vote as currently formulated.

27. IBRD Brazil Electric Sector II Project

Projected IBRD Funding: $300 Million
Total Project Funding: Unavailable

Description: The loan would continue support for the Government of Brazil's measures to rehabilitate the power sector. The executing agency is Brazil's ELECTROBRAS (Centrais Electricas Brasileiras).

Issues: Concerns have been raised regarding the effective design and implementation of the sector's environmental review process and regarding several specific projects: Itaparica, Balbina, Ji-Parana and others.

Status: Concerns have been discussed with Bank staff. We are awaiting results of the appraisal mission.

28. IBRD Brazil Electric Sector III Project

Projected IBRD Funding: $350 Million
Total Project Cost: Unavailable

Description: The loan would continue support for government measures to rehabilitate the power sector. The executing agency is Brazil's ELECTROBRAS.

Issues: Concerns have been raised regarding the effective design and implementation of the sector's environmental review process and regarding several specific projects: Itaparica, Balbina, Ji-Parana and others.

Status: Concerns have been discussed with Bank staff. The appraisal mission for the project is scheduled for the summer or fall of 1987. We will review the results of this appraisal mission, as well as results of our examination of the Brazil Electric Sector II project.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: March 4, 1992

TO: Mr. Rajagopalan, Vice President, OSP

THROUGH: Emmanuel Jimenez, Acting Director, PHR

FROM: Adriaan Verspoor, Chief, PHREE

EXTENSION: 33279

SUBJECT: Draft joint letter to be sent to heads of government

Please find attached for your clearance a draft letter to all heads of government. The letter has been drafted by UNESCO and as agreed in the December meeting is to be signed by all agency heads.

AVerspoor:sd
raj.mem/SDCORR07

cc: Ann Hamilton (o/r).

Mr. Mayas

Pl. review and check with Alex & Legal.

3/5/92

ROUTING SLIP	Date 03/16/92
NAME	ROOM NO.
Mr. Rajagopalan, OSPVP	

	URGENT	X	For Action/Comment		Per Your Request
	Appropriate Disposition		Information/Discard		Returned
	Approval/Clearance		Note And Return		See My E-Mail
	File		Per Our Conversation		Signature/Initial

RE: Draft joint letter to be sent to heads of government.

REMARKS

The letter has been cleared by EXT and LEG, with some minor modifications in the last paragraph.

I suggest that instead of "ideal" we say "WCEFA goals".

If you agree, I shall inform UNESCO of your comments.

yes. Go ahead and inform UNESCO

3/17/92

From	Room No.	Ext.
Adriaan Verspoor	S-6029	33279

P-1862

UNESCO

united nations educational, scientific and cultural organization
organisation des nations unies pour l'éducation, la science et la culture

10/25

RECEIVED
010
90 OCT -9 PM 2:38
OFFICE OF THE VICE PRESIDENT
SECTOR POLICY & RESEARCH

7, place de Fontenoy, 75700 Paris
1, rue Miollis, 75015 Paris

adresse postale : B.P. 3.07 Paris
téléphone : national (1) 45.68.10.00
international + (33.1) 45.68.10.00
télégrammes : Unesco Paris
télex : 204461 Paris
270602 Paris

référence :
ED/BAS/CBE/90/B/507

5 October 1990

To: Mr Mahbub Ul Haq, UNDP
Mr. V. Rajagopalan, World Bank
Mr. Richard Jolly, UNICEF

Info: Mr. J. Lawrence
Info: Mr. W. Haddad
Info: Dr. Nyi Nyi
Mr. Aklilu Habte

From: Colin Power
Assistant Director-General
for Education

**Subject: Meeting of the Ad hoc Inter-agency
Co-ordination Group on EFA Follow-up
New York, 3 November 1990**

It appears that, in response to my fax of 17 September, the generally preferred date for this meeting will be Saturday, 3 November 1990. I should be glad therefore if we could meet on that date in the Unesco Liaison Office (2 UN Plaza, Office No. 900, 9th floor). Subject to your convenience, we might start at 10h00 a.m.

At your suggestion, this meeting should also serve as an Executive Committee Meeting since we have several matters to deal with. The agenda might therefore be as follows:

1) Discussion of country level initiatives currently underway or scheduled for 1991 by each of the four agencies;

2) Preparation of the next heads-of-agencies meeting on 25 January 1991, in Washington D.C.

3) Preparations for the first meeting of the International Consultative Group on EFA (March 1991).

4) Closure of IAC accounts.

Concerning Agenda item 1), it would be most helpful if each agency could come prepared with the relevant facts concerning ongoing and/or planned country projects including upstream surveys, studies, etc. Whenever possible, we should try to share this information in advance by fax.

Concerning items 2) and 3), Unesco will prepare specific proposals.

Concerning Agenda item 4), we hope that UNICEF will be able to present a final picture.

With best wishes,

Yours sincerely,

Colin N. Power

Colin N. Power

cc: Mr. A. Isaksson,
Director NYO

Pankinge P. Laup

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91 DEC 12 PM 1:

12/12

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: December 12, 1991

TO: Files

FROM: Adriaan Verspoor, Chief, PHREE

EXTENSION: 33279

SUBJECT: Meeting Education for All Consultative Forum

1. Mr. Rajagopalan (OSPVP), Mr. Wadi Haddad (Special Representative to the UN), Ms. Marlaine Lockheed (Senior Sociologist, PHREE) and myself attended the first meeting of the International Consultative Forum on Education for All at Unesco headquarters in Paris from December 4-6. The meeting was attended by about 50 delegations of donor agencies, foundations, NGO's and developing countries. These delegations were almost all headed by very senior officials. Five developing countries were represented at the Ministerial level, most bilateral agencies were represented at the director level or above. Mr Rajagopalan attended all the sessions. The Heads of the other sponsoring agencies attended parts of the meeting.

2. In his opening address, Mr. Draper stressed the continued strong cooperation between the four original sponsoring agencies and expressed his appreciation for the efforts all the other agencies that are joining the EFA effort. In subsequent sessions, the progress made towards the EFA goals by countries and by the international donor community were reviewed. Mr. Rajagopalan reported on the rapid expansion of Bank support for basic education and laid out the challenges faced by countries and donor agencies in putting the increased external aid funds to good use.

3. The second day was devoted to reports on country programs that were considered to be promising in moving toward the EFA goals. The reports demonstrated considerable commitment and imagination in the design of EFA inspired programs. In several instances Bank funding had been extended or was being sought for the generalization of these programs.

4. The program of the third day introduced some initiatives for improved management of the education sector through the establishment of systems for monitoring progress toward the EFA goals. Ms. Lockheed reported on the dramatic increase (600% from FY89 to FY91) in the number of Bank education sector projects having components or subcomponents designed to help countries monitor educational outcomes.

5. Ms. Sutherland-Addy, Deputy Secretary of Education in Ghana, reported on the findings of a working group on the future of the Forum which had surveyed the delegations. She reported broad support for the convenors proposal to establish the Forum as permanent mechanism for monitoring progress towards EFA goals and exchanging successful experiences, which

would meet every other year.

6. Mr. Haddad in his capacity as former Executive Secretary of WCEFA gave the closing address. After the formal closing of the Forum by Mr. Mayor on behalf of the four conveners, a press conference was held. Mr. Rajagopalan summarized the outcomes of the Forum convenors.

AVerspoor:sd
AVSEPT91\btoforum

cc: Rajagopalan, Hamilton, Haddad, Lockheed, and PHR TD Chiefs.

ROUTING SLIP 12-17-91

12/17

NAME	ROOM NO.
Distribution	

URGENT	For Action/Comment	Per Your Request
Appropriate Disposition	Information/Discard	Returned
Approval/Clearance	Note And Return	See My E-Mail
File	Per Our Conversation	Signature/Initial

RE:

REMARKS

REVISED TO INCORPORATE
MR. RAJAGOPALAN'S COMMENTS.

From	Room No.	Ext.
A. Verspoor, PHREE	S 6-029	33279

P-1862

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: December 16, 1991

TO: Files

FROM: Adriaan Verspoor, Chief, PHREE

EXTENSION: 33279

SUBJECT: Education for All - Heads of Agency meeting

1. The Heads of the four agencies that originally sponsored the 1990 World Conference on Education for All (WCEFA) Mr. William Draper III, Administrator of UNDP; Mr. Federico Mayor, Director-General of UNESCO; Mr. James Grant, Executive Director of UNICEF and Mr. V. Rajagopalan, Vice-President OSP of The World Bank-- met in Paris on December 4, 1991. The purpose of the meeting was to review follow-up activities to WCEFA to date and to discuss actions needed to maintain effective momentum.

2. Progress to Date. All four agencies expressed satisfaction with the response to the Conference. More than 70 countries have prepared national action plans. UNDP, UNESCO, UNICEF and the World Bank all have expanded their programs in basic education. Bank lending for basic education, which totalled in FY91 more than the sum of the three preceding years, was singled out by the participants in the meeting as "most impressive". Bilateral agencies have been somewhat slower to respond but several are reviewing their policies with a view to increasing support for basic education.

3. Future Actions. The meeting discussed the UNESCO proposal to solidify the organizational arrangements for follow-up through a three-tiered structure comprising:

(a) A Secretariat located at UNESCO. It was agreed that the existing structure needed to be strengthened. UNESCO offered to allocate the necessary staff and provide office facilities, but requested support for other recurrent costs, such as printing and mailing a newsletter, organizing bi-annual meetings of the WCEFA Forum, and organizing other meetings.

(b) A Steering Committee of 10-15 people comprising representatives of bilateral agencies, multilateral agencies, developing countries, NGOs, and the four original sponsoring agencies. The SC would meet at least annually to guide and review the work of the Secretariat.

(c) The WCEFA Forum to be the mechanism for monitoring follow-up internationally. It was agreed that the Forum should meet once every two years, and that the four sponsors of the WCEFA should continue to be the joint convenors of the Forum. The Forums' membership would be high-level representatives from donor agencies, NGOs, and developing countries.

It was agreed that UNESCO would prepare a work plan and a budget with a precise cost estimate of the operating cost of the Secretariat. Mr. Rajagopalan stressed the need to keep this whole structure very lean and to focus attention and resources on the support of country level action. He objected specifically to the concept of a Steering group and insisted that the functions of the SC should be only advisory. This clarification was accepted by the meeting. It was also agreed that the Secretariat would explore the possibilities of mobilizing donors to organize special interest groups on topics related to EFA.

4. The proposal to organize a meeting of the ten largest states generated considerable discussion. Mr. Rajagopalan pointed out the political pitfalls of such a meeting and argued that the initiative should come from the countries rather than from external agencies. He said that the Bank cannot be a sponsor of such a group. UNICEF and UNESCO continued to push the idea and invited the other agencies to attend a working lunch that they were organizing with representatives of the large countries later in the week. At the lunch meeting, Prof. Fafunwa, the Minister of Education of Nigeria, offered to take the lead in convening the large state meeting; UNICEF volunteered organizational services; it was agreed that they would keep the other agencies who were present at the meeting informed of their progress.

5. UNESCO and UNICEF informed the other participants of a program they were launching to share internationally the lessons from experience with innovative approaches to basic education.

AVerspoor:sd
bto4head.1/SDCORR06

cc. Rajagopalan, Hamilton, Haddad, Lockheed, PHR TD Chiefs.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Adriaan: Re. Para 3(b) I specifically objected to the Concept of "Steering Committee". This would be an advisory group only. Pl. see comments on next page also

RECEIVED
013
91 DEC 12 PM 1:

12/12

DATE: December 12, 1991

TO: Files

FROM: Adriaan Verspoor, Chief, PHREE

EXTENSION: 33279

SUBJECT: Education for All - Heads of Agency meeting

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Ten

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He said that the Bank cannot be a sponsor of such a group

5. UNESCO and UNICEF informed the other participants of a program they were launching to share internationally the lessons from experience with innovative approaches to basic education.

AVerspoor:sd
bto4head/SDCORR06

cc. Rajagopalan, Hamilton, Haddad, Lockheed, PHR TD Chiefs.

sent 10/23

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

Washington D.C. 20433

U.S.A.

Facsimile Transmittal Form

No. of Pages: 2

DATE: **October 22, 1990**

FROM: **Mr. V. Rajagopalan,**
Vice President, PRS

TO: **Mr. Colin N. Power**
ADG/ED

FAX NO: **331-4-065-9405**

Re: **Preparation of WCEFA Monographs**

1. Thank you for your fax of Oct. 18, 1990 and the draft terms of reference and timetable for the preparation of the WCEFA monographs. We are pleased that you were able to recruit editors of such high caliber who will certainly ensure the quality of the product. The terms of reference, as you mention, generally conform to our prior discussions. There is one element, though, that can be misunderstood by the editors and thus change the nature of these monographs. We have always assumed that these monographs will represent the substance and, to a large extent, the text of the thematic roundtables with excerpts from the illustrative roundtables. In that sense, the responsibility as well as the credit for the substance rests primarily with the original authors/contributors. The editors under this scenario,

harmonize the texts and prepare them for publication. The draft TORs give the impression that the editor will do a synthesis piece by drawing "on relevant material from any of the thematic roundtables." (Para. 2 of TOR). We are sure you have in mind the first scenario and we thus suggest that you revise the TORs accordingly.

2. As far as the constitution of the editorial board (Para. 4), we have no objection to this formula, although it deviates slightly from what was presented at the meeting of the heads of the four agencies in New York last July. As far as the Bank is concerned we designate Wadi D. Haddad to serve on the editorial board.

3. I look forward to seeing you in New York on Nov. 3.

Transmission Authorized by: **Wadi D. Haddad**

Ext. **36762** **Room No.** **J - 3241**

DIVISION FAX NO: (202) 477-0142

DEPARTMENT FAX NO: (202) 477-0643

WORLD BANK GENERAL FAX NO: (202) 477-6391 (4 lines)

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: 22-Oct-1990 01:23pm

TO: Visvanathan Rajagopalan (VISVANATHAN RAJAGOPALAN)

FROM: Adriaan Verspoor, PHREE (ADRIAAN VERSPOOR)

EXT.: 33279

SUBJECT: Preparation of WCEFA Monographs

I understand that the UNESCO proposal conforms with the agreements made with the Executive Secretariat. It looks fine to me.

united nations educational, scientific and cultural organization
organisation des nations unies pour l'éducation, la science et la culture

7, place de Fontenoy, 75700 Paris
1, rue Miollis, 75015 Paris

adresse postale : B.P. 3.07 Paris
téléphone : national (1) 568.10.00
international + (33.1) 568.10.00
télégrammes : Unesco Paris
télex : 204461 Paris
270602 Paris

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référence :

OUTGOING FAX NO: ED/FAX/BAS/CBE...6220

PAGE 1 OF 4.....

DATE : 18/10/1990....

TO :	Mr V. Rajagopalan, World Bank cc. Mr Adriaan Verspoor, World Bank ~~cc. Mr Wadi D. Haddad, World Bank~~	FROM :	Colin N. Power, ADG/ED
FAX NO :	202 477 01 42	FAX NO :	(33-1) 40-65-94-05
ADDRESS :	1818 H Street N.W., Washington DC 20433 USA		
TOTAL NUMBER OF TRANSMITTED PAGES INCLUDING THIS PAGE :	4		

Re : Preparation of WCEFA Monographs

Please find enclosed draft terms of reference for this inter-agency activity. I believe they conform to our prior discussions on this matter, but I would appreciate your suggestions, if any, to improve them.

I am pleased to inform you that we have reached tentative agreement on the basis of these terms of reference, subject to your approval, with three editors to work as a team to prepare the texts of the monographs. Prof. Paul Fordham at the University of Warwick (resume attached) has agreed to serve as the coordinating editor and will assume primary responsibility for monograph 2 (the vision). Mrs Sheila Haggis, who will soon complete a distinguished career in education with Unesco and who has worked closely with me, will have primary responsibility for monograph 1 (the purpose of EFA). Prof. Douglas Windham, known to all of us particularly through his contributions to the WCEFA documents, will have primary responsibility for monograph 3 (the requirements). All three have given assurances that they will be able to accomplish their share of the work within the tight time-frame of this activity.

I would be grateful to receive any comments you may wish to make on this activity by 23 October, so that the editorial team can be briefed accordingly.

Colin Power.

EDUCATION FOR ALL
World Conference Monographs

(draft) Terms of reference

1. According to the agreement with the WCEFA Inter-Agency Commission (IAC - UNDP, Unesco, UNICEF, World Bank), Unesco is responsible for the preparation, publication and distribution of three monographs based on materials relating to the thematic and illustrative roundtables organized as part of the Conference programme. These monographs will thus supplement the official WCEFA documents published by the IAC, namely the Final Report of the World Conference on Education for All (Jomtien, Thailand, 5-9 March 1990) and the background document entitled Meeting Basic Learning Needs: a Vision for the 1990s.

2. The three stand-alone but complementary monographs will deal respectively with three clusters of themes in line with the structure of the World Declaration on Education for All:

i) Education for All: the Purpose;
ii) Education for All: an Expanded Vision and a Renewed Commitment; and
iii) Education for All: the Requirements.

Each of the monographs will draw on relevant material from any of the thematic roundtables and, where appropriate, will use material from the illustrative roundtables literally to illustrate subjects either within the narrative text or in boxes.

3. The monographs will be prepared by a team of three editors, one of whom will serve as the editorial coordinator. They may contact original authors to update or elaborate particular items as needed and shall endeavour to draft each monograph to reflect the substance of the materials written specifically for the roundtables as well as the tenor of the discussions insofar as this can be determined.

4. A four-member editorial board comprising one official designated by each of the four IAC constituent agencies, will review the draft texts prepared by the editors.

5. Unesco will provide the necessary central administrative support for this activity. It will engage the three editors on a fee contract basis and pay for their work-related travel and administrative expenses in accordance with its regulations. If needed, Unesco will pay an honorarium to authors requested to make substantial improvement on their roundtable materials.

6. Once the texts are in final form, Unesco will arrange for their production in English and French on a commercial co-publishing basis. Unesco will also ensure their distribution to the primary recipients of the WCEFA documents mentioned above (para. 1.).

7. Timetable:

1990

October	Engage editors. Distribute roundtable materials.
November	(early) First meeting of editors: discussion of initial draft outline of each monograph and modus operandi.
November	Revised outlines circulated to Editorial Board. Editors contact primary authors as necessary and begin drafting text of monographs.
December	Work on monographs continues.

1991

January	18: all drafts submitted to coordinating editor for preliminary harmonization.
January	31: first draft of three monographs despatched to Editorial Board for review during February.
February	27 or 28: Editorial Board meets with the editors to agree on improvements to be made in the final texts.
March	22: Revised texts submitted to coordinating editor for final harmonization.
March	29: Final harmonized texts submitted to Unesco for translation and reproduction.
April	Publication of original English texts.
April/May	Translation into French; distribution of English version.*
June	Publication of French version.
July	Distribution of French version.*

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* Refers to free distribution to Jomtien delegations; further distribution will be on a commercial basis.

MLakin
Unesco ED/BAS
15.10.90

(tor.mon)

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
United States Legislation, WCEFA, World Health Organization [WHO], World Development Report	1153518

Document Date	Document Type
October 1990	CV / Resumé

Correspondents / Participants

Subject / Title
Curriculum Vitae - Paul Fordham

Exception(s)
Personal Information

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Ann May	04-Jan-17

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: February 19, 1992

TO: Mr. Lewis T. Preston

FROM: V. Rajagopalan VR

EXTENSION: 33419

SUBJECT: **Briefing Note Concerning the Visit of Dr. Nakajima of WHO**

1. This note provides background information for your breakfast meeting with Dr. Nakajima. It first provides general information on WHO and Dr. Nakajima. It then describes the programs in which the Bank and WHO collaborate. Detailed information on the River Blindness Programme is being provided to you by the Africa region.

2. **WHO and Dr. Nakajima -- General Information**. WHO is one of the UN specialized agencies. More than 160 countries are members. Based in Geneva, WHO has a headquarters staff of approximately 2,000. It operates on a two year budget cycle. The regular budget for biennial FY92-93 is US$ 764 million. When outside contributions (from the Bank and others) are added to this, the total budget for this period is US$ 930 million.

3. WHO coordinates health action on a global basis. It cooperates with member countries in the development of health services, disease prevention and control, and promotion of medical research. It also disseminates information on disease outbreaks, makes health regulations for international travel, and sets quality control standards for drugs, vaccines and other substances affecting health. A particular concern of the organization is making health care available to rural and poor urban-fringe populations.

4. WHO's policy making body is the World Health Assembly, which meets annually. All members are represented. The Assembly elects a 31-member Executive Board and appoints the Director-General. WHO is a relatively decentralized organization that operates through six regional offices. The heads of these regional offices are elected by national ministers of health in a region. This has the effect of sometimes introducing more political considerations than is desirable.

5. Dr. Hiroshi Nakajima is a Japanese citizen and a medical doctor. He is trained as a neuro-physiologist. He has been Director-General of WHO since 1988 and was appointed for a five year term.

6. **Onchocerciasis (River Blindness) Control Program**. The Program's objective is to eliminate river blindness as a disease of public health and socioeconomic importance in an 11 country area and to ensure that the beneficiary countries are in a position to safeguard this achievement. The Bank has co-sponsored this program with UNDP, FAO, and WHO since its inception in 1974. As of 1989, program expenditures amounted to US$ 282 million to which the Bank had contributed US$ 28 million.

7. WHO is the executing agency. The Bank has responsibility for donor coordination, mobilizing all donor financing, and managing the Program's Trust Fund. The Bank regularly chairs the Donors' Conference and the Committee of Sponsoring Agencies, which coordinate broad Program policies, consider financing requirements, review budgets, and oversee Program operations. In addition, the Bank plays a lead role in

organizing support both for socioeconomic development of river blindness-controlled areas and for capacity building in the beneficiary countries to prevent any long-term recurrence of the disease.

8. The Program has now virtually eliminated river blindness in the original seven-country area where operations were launched in 1974. This once most heavily infected area in the world contains more than 20 million people. These results have been achieved by controlling the vector-- a savanna blackfly -- which transmits the parasitic worm that is the source of the disease. Blackfly breeding sites in rivers are destroyed by aerial spraying of environmentally safe insecticides. This breaks the cycle of disease transmission. As a consequence, in the original area, the parasite reservoir has now disappeared throughout most of the human population, enabling the Program to phase out control operations there.

9. **Other Bank Support to WHO**. In FY92, the Bank contributed US$ 7.3 million to three large multi-donor programs executed by WHO: the Tropical Diseases Research and Training Programme (TDR), the Human Reproduction Programme (HRP), and the Global Programme on AIDS (GPA). In addition, since 1987 the Bank has provided approximately $1.5 million to WHO's Safe Motherhood Operational Research Programme. Finally, management recently approved a special grant to the WHO Acute Respiratory Infection Programme of $1 million a year for four years, beginning in FY93.

10. **Tropical Disease Research Programme (TDR)**. TDR was started in 1975-76 with the twofold objective of research and development of new and improved tools for the control of six major tropical diseases, and the strengthening of national research capabilities in countries where the diseases are endemic. The six diseases are: leprosy, the leishmaniases, schistosomiasis, trypanosomiasis, filariasis and malaria. The Bank became a non-contributing cosponsor in 1977, and started to contribute financially in FY81. The research has already led to new drugs -- for malaria, onchocerciasis (the form of filariasis that is a major cause of blindness), schistosomiasis and African trypanosomiasis. It has created new therapeutic procedures, such as multidrug therapy for leprosy, and vector control methods against blackfly and the vectors of Chagas disease (Latin America's form of trypanosomiasis, of which there are an estimated 10 million cases), and it has developed simple traps for tsetse, and impregnated bed nets against mosquitoes.

11. **Human Reproduction Programme (HRP)**. HRP was established in 1972 as a Special Program of the World Health Organization to support and evaluate international research and development related to human reproduction with particular reference to the needs of developing countries. In 1987-88 the program was restructured along lines similar to the Tropical Diseases Research Program (TDR), and the Bank joined with WHO and other U.N. agencies in becoming cosponsors of the program, with WHO as the executing agency. The World Bank's first contribution of $2.0 million was made in FY88.

12. **Global Programme on AIDS (GPA)**. The GPA began in 1987 under the sponsorship of the World Health Organization to coordinate research, develop tools, and implement strategies to control this potentially devastating disease. In FY89 it received a Special Grant of $1.0 million from the World Bank to support operational research, a special account being established by WHO for this purpose. The World Bank has since continued its support at the same level.

13. **WDR 1993**. We have advised WHO formally that the *1993 WDR* will be on "Health". WHO has expressed enthusiasm and offered its collaboration. *WDR* Staff Director Dean Jamison has arranged to meet with the Deputy Director-General, Dr. Abdelmoumene, in early March.

THE WORLD BANK/IFC/MIGA
OFFICE MEMORANDUM

DATE: February 18, 1992

TO: Mr. Lewis T. Preston

FROM: Mr. Michael Gillette, Acting, AFRVP

EXT: 34000

SUBJECT: River Blindness Program Signing Ceremony, February 25, 1992, Room F-1244

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1. This is the signing of the Fund Agreement for the fourth six-year phase (1992-1997) of the Onchocerciasis (Riverblindness) Control Programme (OCP). Participating will be representatives of the 21 donor signatories, and, as observers, the ambassadors of the 11 West African beneficiary countries (a list of attendees and copy of the final agreement will be provided to you by February 21). Also attending will be Mr. Robert McNamara and his then vice president for West Africa, Mr. Roger Chaufournier, who were instrumental in launching OCP; and Dr. Ebrahim Samba, current Director of OCP at the Program's headquarters in Burkina Faso.

2. Bank staff responsible for the signing ceremony are Bruce Benton, Onchocerciasis Coordinator, Sahelian Department, and Mrs. Minneh Kane, Legal Advisor, Legal Department.

3. The donor and beneficiary country representatives will arrive between 2:00 and 2:15 p.m.. The ceremony will begin at 2:20 p.m., to be opened with brief remarks by you (draft attached). You will then sign two copies of the agreement (French and English) for the Bank and the other donors will follow. When the signing has been completed, you should call on the following to make brief statements:

(a) Mr. Ibrahim A. Al-Assaf, representing Saudi Arabia as Chairman of the Joint Programme Committee (Governing Board of the Program)
(b) Mr. William Draper, Administrator of UNDP as Chairman of the Committee of Sponsoring Agencies
(c) Dr. Ronald Roskens, Administrator of USAID, on behalf of the donors
(d) His Excellency Ambassador Désiré Kaboré of Burkina Faso, on behalf of the Participating Countries.

Each of these representatives has been notified of these arrangements.

4. The estimated time for the ceremony is one hour. Afterwards, representatives will adjourn for a reception in the anteroom, which will last to about 4:00 p.m., when the Board is scheduled to reconvene. Simultaneous French-English interpretation will be provided for the ceremony.

5. Attached is background on the Programme (Staff Presentation to the Board on January 23), including the upcoming fourth phase and levels of donor financing.

cl. w. and cc: Ms. Marshall
cc: Messrs/Mmes: Jaycox, Karaosmanoglu, Fredriksen, Liese, Kane, M.L. Ingram, Elder, Kim, Rimpler

Drafted by: BBenton:ma

DRAFT
FEBRUARY 13, 1992
2.00 PM

B. BENTON/M. PREST

MR. PRESTON'S REMARKS AT THE SIGNING CEREMONY OF THE PHASE FOUR FUND AGREEMENT OF THE ONCHOCERCIASIS CONTROL PROGRAM, HQ, FEBRUARY 25, 1992

1. EXCELLENCIES, LADIES AND GENTLEMEN. WELCOME TO THE WORLD BANK.

2. IT IS AN HONOR AND A PLEASURE FOR ME TO WELCOME YOU TO THIS SIGNING OF THE FUND AGREEMENT FOR THE FOURTH PHASE OF THE ONCHOCERCIASIS CONTROL PROGRAM.

3. WE CAN ALL TAKE ENORMOUS SATISFACTION IN THIS EVENT. THE AGREEMENT REPRESENTS A REMARKABLE ACHIEVEMENT IN CONTROLLING A WIDESPREAD AND DEVASTATING DISEASE. IT ALSO ESTABLISHES A SOLID FOUNDATION FOR ELIMINATING RIVERBLINDNESS IN MUCH OF WEST AFRICA BY THE END OF THIS DECADE, OPENING UP NEW DEVELOPMENT OPPORTUNITIES THROUGHOUT THE REGION.

4. I BELIEVE WE ARE JUSTIFIED IN CALLING THE ACHIEVEMENT OF THIS PROGRAM "REMARKABLE." RIVERBLINDNESS IS AN ANCIENT AND TERRIBLE SCOURGE. BUT OVER 30 MILLION PEOPLE ARE NOW PROTECTED FROM IT. A NEW GENERATION EMERGING IN THE 11 AFRICAN PARTICIPATING COUNTRIES FACES NO RISK OF CONTRACTING THE DISEASE. FURTHERMORE, SUCCESSFUL CONTROL OF RIVERBLINDNESS IS OPENING UP AN ESTIMATED 25 MILLION HECTARES OF ARABLE LAND. THIS LAND WOULD PREVIOUSLY HAVE BEEN UNINHABITABLE.

5. THE PHASE WE ARE LAUNCHING TODAY HAS THREE GOALS. THE FIRST IS TO CONSOLIDATE THE GAINS ACHIEVED SO FAR BY ENSURING THAT THE RESERVOIR OF PARASITES WHICH CAUSES RIVERBLINDNESS AND IS THE SOURCE OF ITS TRANSMISSION DIES OUT IN THE POPULATION COVERED BY THE PROGRAM.

6. THE SECOND IS TO BEGIN TRANSFERRING RESIDUAL DISEASE CONTROL MAINTENANCE TO THE PARTICIPATING AFRICAN COUNTRIES.

7. AND THE THIRD, WHICH DEPENDS ON THE PREVIOUS TWO, IS TO WIND DOWN THE PROGRAM TO A SUCCESSFUL AND LASTING CONCLUSION BY THE YEAR 2000.

8. WE CAN BE CONFIDENT OF REACHING THESE GOALS. THE PILLARS OF THIS PROGRAM'S PROGRESS HAVE BEEN STEADFAST DONOR SUPPORT, STRONG REGIONAL COOPERATION AND COMMITMENT, AN EFFECTIVE CONTROL STRATEGY, AND ENLIGHTENED MANAGEMENT. THESE PILLARS ARE AS SOLID AS EVER.

9. THE SIGNING OF THIS AGREEMENT EMBODIES THE PLEDGES OF 21 DONORS, ALL OF WHOM ARE REPRESENTED IN THIS ROOM. YOUR GENEROSITY WILL ENABLE PHASE FOUR TO BE LAUNCHED WITH SECURE FUNDING OF MORE THAN \$150 MILLION. THAT'S 88 PER CENT OF WHAT'S NEEDED TO MEET PROJECTED PROGRAM SPENDING DURING THE NEXT SIX YEARS.

10. AT THE BANK, WE ARE CONFIDENT THAT WITH THIS VERY SOLID SUPPORT THE REMAINING FUNDS REQUIRED FOR PHASE FOUR CAN BE MOBILIZED WITHOUT ANY LOSS OF PROGRAM EFFECTIVENESS.

11. I KNOW WE CANNOT CLAIM VICTORY YET. BUT WE CAN EXPECT THIS PHASE TO PLACE US ON THE VERGE OF WIPING OUT THIS HORRIBLE DISEASE THROUGHOUT MUCH OF WEST AFRICA.

12. THIS WOULD BE IMPOSSIBLE WITHOUT THE DEDICATED SUPPORT OF EVERY DONOR AND PARTICIPATING COUNTRY REPRESENTED HERE TODAY. THE ALMOST UNPRECEDENTED LONG-TERM INTERNATIONAL COOPERATION WHICH HAS BEEN THE HALLMARK OF THIS PROGRAM IS ALSO INDISPENSABLE. AND IT COULD NOT CONTINUE TO SUCCEED WITHOUT THE COMMITTED STAFF REPRESENTED BY THE PROGRAM'S DIRECTOR, DR. EBRAHIM SAMBA.

13. SO, IN ADDITION TO WELCOMING YOU, I WANT TO THANK AND CONGRATULATE EACH ONE OF YOU FOR HAVING BROUGHT US THIS FAR AND FOR YOUR COMMITMENT TO THE PROGRAM'S FUTURE.

14. WITH YOUR PERMISSION, I WILL BEGIN BY SIGNING ON BEHALF OF THE WORLD BANK. ONCE WE HAVE ALL FINISHED SIGNING, I WOULD LIKE TO ASK SEVERAL REPRESENTATIVES HERE TO MAKE A FEW REMARKS.

15. THANK YOU.

Record Removal Notice

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File Title United States Legislation, WCEFA, World Health Organization [WHO], World Development Report	**Barcode No.** 1153518
Document Date January 23, 1992	**Document Type** Board Record
Correspondents / Participants	
Subject / Title Staff Presentation - Executive Directors' Meeting of January 23, 1992 - Annual Onchocerciasis Control Program Report	
Exception(s) Personal Information	
Additional Comments	The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Ann May	04-Jan-17

ONCHOCERCIASIS FUND

(US$ Millions)

CONTRIBUTIONS	TOTAL RECEIVED PHASE I (1974-79)	TOTAL RECEIVED PHASE II (1980-85)	TOTAL RECEIVED PHASE III (1986-91)	TOTAL PLEDGED PHASE IV (1992-97) a/
AFRICAN DEV. BANK	1.09	1.44	2.29	2.37
BELGIUM	2.38	2.90	5.25	0.50
CANADA	3.31	5.79	8.52	8.67
EEC			7.98	9.16
FINLAND			1.56	
FRANCE	5.78	4.61	7.71	8.46
GERMANY	5.24	5.27	8.14	8.97
GULBENKIAN FOUNDATION			0.20	0.30
IRAQ	0.05			
ITALY		2.00	7.46	0.85
IVORY COAST	2.40			
JAPAN	5.00	8.53	11.14	10.80
KOREA			0.18	0.60
KUWAIT	6.00	5.00	2.50	1.50
LUXEMBOURG			0.71	1.59
NETHERLANDS	6.50	11.26	15.76	15.38
NORWAY	1.06	2.65	3.20	
OPEC FUND		2.00	0.40	0.30
PORTUGAL			0.05	0.30
AL SABAH FOUNDATION	0.10	0.10		
SAUDI ARABIA	3.33	9.67	12.00	14.00
SWITZERLAND		7.79	12.87	12.93
UNITED KINGDOM	5.55	3.95	8.22	11.03
UNDP	0.47	3.93	9.75	7.50
UNITED STATES	7.70	15.28	20.98	21.00
WHO		1.50	2.00	1.50
WORLD BANK	6.00	12.50	14.63	15.78
TOTAL	61.96	106.17	163.50	153.49

a/ Figures are based on a conservative interpretation of donor pledges at the Joint Programme Committee meeting on December 1-4, 1991 and are generally subject to legislative approval.

Policy, Research, and External Affairs

WORKING PAPERS

Population, Health, and Nutrition

Population and Human Resources Department
and the Health Services Department
The World Bank
August 1991
WPS 740

The Onchocerciasis Control Program in West Africa

A Long-term Commitment to Success

Bernard H. Liese
John Wilson
Bruce Benton
and
Douglas Marr

Among African health programs, this program to control "riverblindness" is an exceptional recent success story. Here are some lessons from it.

The Policy, Research, and External Affairs Complex distributes PRE Working Papers to disseminate the findings of work in progress and to encourage the exchange of ideas among Bank staff and all others interested in development issues. These papers carry the names of the authors, reflect only their views, and should be used and cited accordingly. The findings, interpretations, and conclusions are the authors' own. They should not be attributed to the World Bank, its Board of Directors, its management, or any of its member countries.

Policy, Research, and External Affairs

WORKING PAPERS

Population, Health, and Nutrition

WPS 740

This paper — a joint product of the Population, Health, and Nutrition Division, Population, Health, and Human Resources Department and the Health Services Department — is part of a larger study undertaken in PRE of African Health Policy. Copies are available free from the World Bank, 1818 H Street NW, Washington DC 20433. Please contact Otilia Nadora, room S6-065, extension 31091 (14 pages).

Onchocerciasis is a devastating African parasitical disease that causes severe debilitation and intense itching. By the time its victims are in their late twenties, they experience impaired vision, often blindness. River villages are particularly afflicted because the blackflies which transmit the worm parasite that causes the disease breed in rivers — hence the colloquial "riverblindness."

The connection between life by the river and blinding onchocerciasis led to the virtual abandonment of many fertile river valleys, so potentially productive lands lay idle for many years. Yet millions continued to succumb to the disease until the onchocerciasis control program, a large multidonor-supported effort initiated in 1973 at the instigation of Robert McNamara, then head of the World Bank.

Today, 95 percent of the original seven-country area is virtually free of the disease, and previously deserted lands are being resettled and cultivated, increasing agricultural production.

From the beginning, the program maintained a limited, specific objective: to control onchocerciasis in a clearly delineated area in the savannah zones of West Africa. The operational focus was to interrupt transmission of the disease and eventually eliminate the parasite in all the human population. The only acceptable approach was effective control of the disease-transmitting blackfly. The strategy was to focus on destroying blackfly larvae located in fast-flowing rivers, which could easily be targeted with aerial spraying.

The main challenges of the program have been to combat the reinvasion of controlled areas by blackflies, to manage multiple resistance to the larvicides that were used, avoiding any negative impact on the environment, to develop a drug that would kill the parasites, and to hand control of residual responsibilities over to the beneficiary countries once the program ends.

Liese and his colleagues identify the main reasons for the program's success as:

• Limited, achievable, clearly defined objectives and a realistic 20-year timeframe. The request for a 20-year commitment did not meet with potential donors' immediate approval, but the proponents of the program remained firm in their assessment that this much time was necessary to eliminate the parasite reservoir in the human population.

• Use of the best technology available for any task.

• Contracting out highly specialized tasks such as aerial spraying.

• Operational research (considered an equal partner in program implementation).

• Program autonomy, which allowed flexibility in responding to strategic and technological issues.

• Delegation of authority to those most closely involved in the program, thus assuring a clear focus and flexibility.

• Long-range planning to sustain donor commitment.

• Transparency, made possible by a comprehensive flow of information and the program's openness to evaluation and review.

The PRE Working Paper Series disseminates the findings of work under way in the Bank's Policy, Research, and External Affairs Complex. An objective of the series is to get these findings out quickly, even if presentations are less than fully polished. The findings, interpretations, and conclusions in these papers do not necessarily represent official Bank policy.

Produced by the PRE Dissemination Center

THE ONCHOCERCIASIS CONTROL PROGRAM IN WEST AFRICA: A LONG-TERM COMMITMENT TO SUCCESS

Bernhard H. Liese, John Wilson, Bruce Benton and Douglas Marr

1. Development of health systems in West Africa has been fraught with difficulties for many years and most health services still fall far short of meeting basic needs. In most West African nations the paucity of human and financial resources, management capability, and political will has made lasting improvements difficult to achieve even when financial support from aid agencies such as the World Bank has been readily available. Some programs, however, have met with success despite these constraints. These are, in particular, programs which have been focused on one disease or a group of diseases. The Smallpox Eradication Program has been the classic example and the Expanded Program of Immunization has had a significant impact on five major diseases affecting children. The most notable recent example, however, is the Onchocerciasis Control Program (OCP) in West Africa. The OCP is recognized as a solid pillar of achievement among health development efforts and is considered by the donor community the most successful health program in West Africa. This paper reviews the OCP's experience with the objective of drawing more general lessons for the Bank's health and development work.

The Disease

2. Onchocerciasis has long been the cause of great human suffering across a wide part of Africa stretching westward from the Sudan to Senegal and southward to Malawi. Although not confined to it, the disease is most devastating in the drier sudan and guinea-savannah areas and is caused by a thread-like worm, *Onchocerca volvulus* which is spread by the bite of female blackflies (*Simulium damnosum* s.l.).[1] Victims of onchocerciasis experience severe debilitation and itching due to the proliferation of millions of infant worms produced by adult worms located in unsightly nodules under the skin. By the time victims are in their late twenties and have been repeatedly infected by the parasite, the result is impaired vision and often blindness. Although it is not a killer disease, onchocerciasis appears to reduce life expectancy and threatens the viability and very existence of entire communities. Since the blackflies which spread onchocerciasis breed in rivers, those villages located close to them are the most severely afflicted; hence the colloquial term "riverblindness".

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[1]Some of the several varieties of *Simulium damnosum* s.l. are more effective vectors than others. The species complex is divided into forest forms (*S. soubrensi*, *S. sanctipauli* and *S. yahense*), savannah forms (*S. sirbanum* and *S. damnosum* s.s.) and an intermediate variety *S. squamosum*. Control efforts concentrate on the savannah forms and *S. squamosum* since the forest forms do not appear to be responsible for blinding onchocerciasis.

Economic Impact

3. The connection between life by the river and blinding onchocerciasis led to the virtual abandonment of many fertile river valleys. People crowded on to marginally productive lands plagued by over-farming, desertification and drought, while potentially productive lands have lain idle for many years. As transmission of the disease is possible anywhere within the very extensive flight range of the blackfly vector, moving out of these river valleys has not guaranteed protection from onchocerciasis; millions were still infected by the parasite. Many who would otherwise be at the peak of their productive lives found themselves unable to contribute adequately to the support of their families. Extended families or other villagers were forced to provide for those disabled by the disease. In the never-changing situation, new victims succumb to blindness and take the place of those who died, so maintaining the burden of this disease on the community.

History of the Program

4. In the 1960s, the French scientific research organization, ORSTOM, operating in conjunction with the Organization de Cooperation et Coordination des Grandes Endemies (OCCGE), collected a large amount of data on onchocerciasis and the blackfly vector in western Burkina Faso, northern Côte d'Ivoire, and Mali. The World Health Organization (WHO), in an inter-country project supported by the United Nations Development Program (UNDP), gathered similar data from northern Ghana, eastern Burkina Faso and northern Togo. These studies confirmed that the Volta River Basin in West Africa was the largest contiguous focus of onchocerciasis in Africa and documented the devastating effect of onchocerciasis on the region's population and economy.

5. Following the positive outcome of a conference in 1968 deeming the control of onchocerciasis feasible, seven West African Governments--Benin, Burkina Faso, Côte d'Ivoire, Ghana, Mali, Niger, and Togo--requested, in 1969, WHO assistance in formulating the terms and conditions of an onchocerciasis control program. They clearly recognized that onchocerciasis was a major health problem in their savannah areas and that the disease was wreaking havoc among their rural populations who were debilitated, blinded and forced to abandon fertile river valleys. The governments of these countries were keenly aware that the blackfly vector did not respect political boundaries, and that independent national effort could not control onchocerciasis effectively. The costs and implications would exceed the capabilities of any one government and intercountry collaboration and donor assistance would be necessary.

6. In 1970, UNDP provided funding for a Pre-Assistance to Governments (PAG) Mission to the above seven countries, the report of which was presented to a meeting of potential donors in Paris in December 1973. The report concluded that effective onchocerciasis control could be achieve in savannah zones only if its endemic area were clearly delineated and if such control were intensive and sustained therein long enough to kill off the indigenous parasite. The PAG Mission report thus identified an area of 640,000 km2 incorporating 18,000 km of rivers, to be kept under control for 20 years at an estimated cost of US$120 million (at 1973 dollar value). Nine donors and agencies--Canada, France, the Federal Republic of Germany, Netherlands, the United Kingdom, the

United States of America, UNDP, the World Bank, and WHO then pledged their commitment to the Onchocerciasis Control Program which was launched in January 1974.

7. The Bank has played a vital role in the implementation of the OCP from the outset. Its participation began in 1972 when Robert McNamara, then President of the World Bank, visited West Africa and was so concerned about the dreadful impact of onchocerciasis on entire communities that he promptly convened a meeting in London with the heads of UNDP, the Food and Agricultural Organization (FAO), and WHO to consider what might be done with regard to the control of the disease and the subsequent development of the river valleys. A Steering Committee was consequently established in 1973, composed of representatives from each of the above agencies, whose mandate was to guide the development of a program. The Steering Committee gave support to the PAG Mission and helped to establish the structure of the program. The Bank also made an important contribution to strengthening the management of the program, in its early years, by seconding one of its senior staff to assume the position of Director of OCP for a period of three years.

8. Since then, the OCP has doubled its operational area to cover 1.3 million km2 and 50,000 km of rivers. It has incorporated four more countries: Guinea, Guinea Bissau, Senegal and Sierra Leone; and it has attracted a further 15 donors: the African Development Bank, Belgium, the European Economic Community, Finland, the Gulbenkian Foundation, Italy, Japan, the Republic of Korea, Kuwait, Luxembourg, Norway, the OPEC Fund for International Development, Portugal, Saudi Arabia, and Switzerland, to support an annual budget of approximately US$30 million. Complete operational coverage of this enlarged program area was achieved in 1990.

9. Today the program is an acknowledged success. Ninety percent of the original area is virtually free of onchocerciasis. The population is no longer debilitated from the disease. To date blindness has been prevented in over 100,000 people, and 9 million children born in the area since 1974 are no longer at risk of contracting the disease. Vector control activities throughout 90% of the original area have been halted since the risk of recrudescence of onchocerciasis is now negligible. Moreover, fertile river valleys have been opened up for socioeconomic development and new communities are being established along rivers where previously people would have been exposed to the worst ravages of the disease. National governments can now confidently promote farming and agroindustry in these areas, supplanting dependency with surplus production. Already, previously deserted lands are the site of thriving plantations producing sugar, tea, cotton, rice and other food and export crops.

The Onchocerciasis Control Strategy

10. From the beginning, the program has maintained a limited and specific objective: to control onchocerciasis in a clearly delineated area in the savannah zones of West Africa. This objective was initially linked to the socioeconomic development of the area and, later, to the development of the capability in the health sector in each of the Participating Countries to maintain onchocerciasis control. However, these considerations have not been

allowed to detract from the principal goal of the program to achieve onchocerciasis control.

11. In the absence of a suitable drug or vaccine, the operational focus of the OCP has been to interrupt onchocerciasis transmission leading to the eventual elimination of the parasite. The PAG mission report confirmed that the only acceptable approach was the effective control of the blackflies that transmit the disease. With a flight range that exceeds 300 km, the adult blackflies disperse too widely and are not targetable. As a result, the strategy has of necessity focused on blackfly larvae whose locations are identifiable. The blackfly breeding sites are not hard to find since the females deposit eggs only in fast-flowing parts of rivers and streams. For the 8-to-10-day period when the larvae are developing in the water, they can be killed by larvicide. The weekly application of larvicide upstream of breeding sites[2] has been the basic control strategy of the OCP and it has remained unchanged since the program began.

12. Because of the length of river (between 5,000-30,000 miles) which has to be covered on a weekly basis and the inability to reach all the breeding sites during all seasons by road, ground treatment has proven inadequate and ineffective against S. damnosum. The program has, therefore, had to employ aircraft to obtain the necessary coverage. This is often dangerous, since many of the targets are along winding and narrow watercourses, and both helicopters and fixed wing aircraft with highly skilled pilots must be used. The aerial spraying has therefore been contracted out to private, specialized firms. This singular method of vector control is the most cost-effective technology for OCP. One helicopter can do in one hour what a highly trained ground application team could not achieve in a week. The operations are sophisticated, currently engaging up to 11 helicopters and two fixed wing aircraft, and require a high degree of coordination between the aerial spraying team and the program staff who determine when, where and how much the pilots are to spray. This coordination of larviciding activities is the responsibility of OCP. Deployment of the aircraft depends on the weekly collection and analysis of data on the quantity and location of breeding sites, on water levels and water discharge (which affect the quantities of larvicide to be applied), and on the effectiveness of the previous week's application of larvicide. The program must ensure that the fuel and pesticide depots are regularly replenished throughout the program area. It must also monitor the size of the biting blackfly population, and periodically measure the level of infection in the human population.

13. The lifeline of the system is a radio network. This network links the information-gathering field offices throughout the program area to the two operations centers--in Bamako, Mali in the west and in Kara, Togo in the east

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[2] The blackfly eggs are deposited on to stems and rocks just below the water surface; within two days they hatch and the larvae again attach to substrates in the water. The larvae filter small particles from the water that pass through their digestive system. At this stage, any larvicide particles introduced into the stream are trapped in the filter fans and pass into the gut killing the larvae.

--which deploy the aerial spraying fleet. The radio network also enables the Program Headquarters in Ouagadougou, Burkina Faso, to maintain contact with all aspects of operations. The location of targets for spraying is determined by mobile teams supervised by entomologists which capture the blackflies for analysis of their numbers and their potential to transmit onchocerciasis. This information, together with water levels taken in river gorges, is relayed by radio from subsector to sector offices and from there to the operations centers where the maps to guide the pilots in their weekly circuit of spraying are prepared.

14. Measurement of the impact of blackfly control on onchocerciasis in the village populations is carried out by three medical and ophthalmological teams which monitor the level of infection in a large sample of communities throughout the program area. A sample of villages is visited on rotation every three years to plot the change in disease patterns over time. This indicates when populations are or will be free of the disease or if there are some impediments to progress.

The Program Structure

15. Because of their inability to undertake effective control of onchocerciasis on a national level, the Participating Governments, through signed Memoranda of Agreement, gave OCP the mandate to carry out the control operations throughout the delineated area on their behalf.

16. The OCP was formally set up with its own independent structure with WHO as executing agency, and the Bank as fiscal agency responsible for all fund-raising. However, the governing body of the OCP is the Joint Program Committee (JPC) comprised of representatives from the Participating Countries, the Sponsoring Agencies, and the donors. The JPC, which has its own terms of reference approved by all members including the Bank and WHO, ensures the implementation of OCP policy and approves budgets. A critical feature of the JPC is its functional independence from WHO and WHO's governing bodies, i.e. the World Health Assembly and the WHO Executive Board; it is thus not distracted or influenced by the political priorities of WHO. This was particularly important in the early years of the program when OCP's vertical approach towards combatting a single disease was at divergence with WHO's multivalent primary health care policy.

17. The day-to-day steering and coordination of the OCP is delegated by the JPC to the Committee of Sponsoring Agencies (CSA) (the successor to the Steering Committee) which meets several times during the year. Within the CSA, the principal actors are the World Bank and WHO because of the critical roles they play in the program's implementation as fiscal and executing agencies, respectively. It is the CSA which actually follows the program most closely, guiding policy development, reviewing plans and programs, maintaining short-term financial control, and monitoring overall implementation of the program between annual sessions of the JPC. The OCP Director, therefore, has several opportunities during the year to report on the program and to seek guidance in resolving operational or financial problems. Also, problem solving and preparation for CSA meetings has been facilitated by regular contact and flow of information between the Program Director's liaison officer

in Geneva, who is also the Secretary of the CSA, and the Bank's representative in Washington, D.C.

18. As Executing Agency for the Program, WHO carries out the action plans and strategies approved by the JPC. WHO, in consultation with the CSA, appoints the OCP Program Director who reports directly to the JPC. Having been delegated full responsibility for OCP by the Director General of WHO, he has relative freedom and independence of action within WHO on matters pertaining to the program. WHO itself provides technical, administrative and legal assistance in such areas as larvicide development and selection, drug screening, hiring and procurement. As the Fiscal Agent for the program, the World Bank manages the Onchocerciasis Trust Fund, which constitutes all donor contributions, and disburses OCP funds on a quarterly basis through WHO. In addition to contributing from its own account, the World Bank is responsible for mobilizing financial resources from the donor community. The separation of executing and fiscal responsibilities is a feature of the program that deserves special notice. It opened up sources of financing not normally available to WHO, and most importantly, it avoided conflict between WHO's regional or global priorities and the needs of the program. In addition, the fiscal arrangements permitted an ongoing external control on expenditures by the World Bank as a representative of the donors and as a member of the CSA.

19. The program structure also includes two very important independent statutory review bodies which report directly to the JPC. First, a twelve-member Expert Advisory Committee (EAC) audits the scientific and technical aspects of the program. Second, a five-member Ecological Group (EG) monitors the impact of larvicide used in vector control on the riverine ecology and advises on the selection of new insecticide products. The members of these two bodies, which meet formally once a year in the program area, are individuals of international repute. They are selected by the CSA and appointed by WHO for a two-year period without prejudice to re-selection. Both groups have played a critical role in OCP, since its inception, by recommending or endorsing important modifications in program operations. Their views are highly respected by the JPC in helping that governing body reach important decisions.

20. Finally, in each of the Participating Countries, a National Onchocerciasis Committee (NOC) coordinates local OCP activities and provides practical assistance to field operations. The Participating Countries have committed to pay up to 1.4% of program expenditures in cash contributions or to provide the required national staff for the operations in their country. In the latter case the Participating Governments are forced to be more closely involved in OCP but full management responsibility is retained by OCP which provides a salary supplement and per diem to the staff concerned. In addition, the NOCs have held joint annual meetings that have proven to be an important and productive forum for discussion of shared problems resulting from the program's activities and success. Likewise the donors meet periodically in seminars hosted by the Bank to review matters of common interest related to the ongoing financial support to the OCP.

21. The program has been implemented in six-year financial phases, each with separate projected costs formally approved by the JPC and supported by Fund

Agreements signed by the donors. The Memorandum of Agreement incorporated within the Fund Agreements[3] is also signed by the Participating Governments. In addition, the program prepares annual budgets that must be presented for approval at the annual meetings of the JPC. By the end of 1989, program expenditures amounted to US$282 million to which the Bank had contributed US$28 million through the Special Grant Program.

Major Challenges

22. The successes of OCP have not been achieved without several challenges having to be met and addressed at different period of its implementation. The major challenges have been "reinvasion", resistance to larvicide, monitoring OCP's environmental impact, the development of a curative drug and the handing over of maintenance activities to the Participating Governments ("devolution").

23. Blackfly Reinvasion and Extension of the Program. From the start, reinvasion of blackflies emanating from source rivers outside the original program area has presented a problem in controlled areas. About 10% of the original program area, primarily along its periphery, was affected in this way. A significant percentage of these incoming flies carried O. volvulus worms and thus reintroduced new infection to the reinvaded area. As the overall attainment of program objectives was clearly threatened, the only effective solution was to extend the spraying operations to incorporate the river sources of these blackflies. In 1978, a minor extension of spraying into southern Côte d'Ivoire had some impact in this regard but a major extension of spraying was recognized as being necessary and was recommended in 1981 by an Independent Commission that was established to review the program. Based on OCP studies in southern Ghana, Togo, and Benin and by similar WHO (and later OCP) studies in Guinea, Guinea Bissau, western Mali, Senegal and Sierra Leone, the program prepared a Long Term Strategy Paper that established the cost-effectiveness of extending the program in order to preserve its achievements. Although approved by the JPC for the third financial phase beginning in 1986, implementation of spraying operations in the Western and Southern Extensions was considerably delayed because of a flare-up of resistance to the key larvicide. The EG, supported by the EAC, placed an immediate embargo on any extension to the operational area until the OCP had at least three back-up larvicides to temephos (the product presently used), each of which was operationally viable and environmentally acceptable. When this condition was met and approval given by the JPC, spraying eventually started in the Extension areas and full coverage of the total Extension areas was realized in 1990. This now means that the program's objective throughout the Western Extension area will be attained only by 2004 when spraying operations can be safely stopped.

24. Combatting Blackfly Resistance to Larvicide. Anticipating eventual development of resistance to temephos, OCP began identification and testing of

[3] The institutional provisions and arrangements (including minimum pledges of financial support) for the execution of the program were contained in the Onchocerciasis Fund Agreements (1974, 1979, and 1986)

alternative larvicides early on in the program. This was undertaken with the full support and encouragement of the EAC, and a monitoring system for early detection of resistance was set in place. Resistance to temephos first emerged in 1980 but was for many years confined to an isolated part of southern Côte d'Ivoire. Chlorphoxim was then introduced as a replacement, and then, soon after, came Bacillus thuringiensis (B.t. H-14). The different characteristics of B.t. H-14, especially in the formulation originally available, required appropriate modifications to the type of spraying equipment used. It also required the contracting of a larger helicopter at considerably increased cost to the program. In 1987, the resistance erupted and expanded rapidly from Côte d'Ivoire to Mali and to the Western Extension area where operations were just getting underway. The Ecological Group and Expert Advisory Committee reviewed the situation and placed their embargo on further extension of operations. Because of the special formulations required to treat rivers and achieve maximum blackfly control with minimum environmental impact, the program intensified its collaboration with the insecticide industry and its field testing of new products. Chemical companies responded positively and this collaboration led to improved formulations of B.t. H-14 which could be applied with the aircraft already available in the fleet and in the identification of new larvicide, including permethrin and carbosulfan. Today, the OCP uses six compounds, all approved by the Expert Advisory Committee and the Ecological Group. These are applied in a rotational scheme which lessens the risk of blackfly resistance.

25. Monitoring the Environmental Impact. The program was conceived at a time when the use of insecticides was highly suspect following the publication of a number of very critical articles on the use and misuse of DDT. It was important, therefore, that the OCP, from the outset, ensure that larviciding would not adversely affect the aquatic fauna and flora. Some donors indicated their inability to support the program should such protective mechanisms not be incorporated. Accordingly, an independent Ecological Group (EG) was set up and was already functioning in 1973, before the program officially began. Because of its independent nature, this EG has been able to assuage any donor and international concerns about the environment and to ensure that OCP continues on an environmentally sensitive path.

26. The EG played a vital role from the start in drawing up protocols for monitoring the treated rivers and streams. These protocols have formed the basis for the continued review of the impact of larvicide application. All data collected are presented to the EG for independent assessment. No new product can be introduced to the operations without the clearance of the EG. More recently, with the use of several different larvicides in rotation, the EG has paid particular attention to possible synergistic effects or any other interrelationships among the various products used. This independent ecological oversight has enabled the program to continue larviciding without adverse ecological impact for over 16 years and thus maintain a clean bill of environmental health.

27. Chemotherapy. The possibility of introducing alternative methods of control to complement larviciding has always been a desired objective of OCP. It has been hoped that chemotherapy could someday replace larviciding as the principal means of control. This depends, however, on the development of an

effective macrofilaricide (i.e., a drug that would kill the adult worms in the human body) suitable for mass treatment. The Independent Commission which evaluated the program in 1981, recommended greater emphasis be placed on drug development since it deemed that such a drug was necessary for the continued success of OCP. Subsequently, the Onchocerciasis Chemotherapy Project (OCT) was set up in 1983. This was necessary as an adjunct to the WHO/UNDP/World Bank-sponsored Special Program for Research and Training in Tropical Diseases (TDR) to augment the limited funds it could provide from its budget for this specific purpose. OCT has collaborated with industry and research institutions in the testing of thousands of potential products in the search for such a drug. To date no acceptable macrofilaricide has been found, but the efforts of OCT have led to the discovery of ivermectin, an effective, long-acting microfilaricide, (i.e. it kills off the infant worms in the skin).

28. Ivermectin was a drug developed by Merck, Sharp and Dohme to treat parasites in animals. Its effectiveness in humans was established through clinical trials carried out by OCT in collaboration with TDR. While ivermectin does not kill the adult parasite, and kills only the microfilariae, it does so without the most unpleasant and distressing side effects of diethylcarbamazine (DEC), a multidose drug available for years but unsuitable for mass treatment. As a bonus, ivermectin also inhibits, for reasons unkown, the production of further microfilariae by the adult female worm for about 12 months.

29. Initially, expectations were high that ivermectin could be used as a control tool by itself, if adequate, population-wide distribution could be organized, but field trials have shown that the once-per-year treatment leaves about 5% microfilariae infection, enough to allow continued transmission of the disease. While thus not a suitable control tool, ivermectin is most effective in relieving suffering and preventing blindness caused by the disease. The program began large-scale ivermectin distribution in heavily infected villages in the Extension areas which resulted in the above observations being made in 1988. The drug is being donated by the manufacturer for as long as it will be required so as to encourage its use. Although the drug is free, the costs of its distribution and monitoring its effect are considerable. While presently these are borne by the program in addition to the larviciding costs, they will eventually have to be transferred to the national governments. Despite its benefits, ivermectin is not the final answer to the program's needs and the search for a macrofilarcide continues.

<u>Devolution and the Role of the Participating Countries</u>

30. With complete responsibility for the control operations vested in OCP, the Participating Governments have played a relatively minor role. As a result there has been no provision within their health systems and in their overstretched budgets for the establishment of a structure, properly staffed, equipped and financed, to enable them to take over when OCP is eventually wound up. This weakness was identified by the Independent Commission as early as 1981 when, in its report, it flagged the eventual devolution of maintenance activities to the Participating Countries as an essential prerequisite to the successful conclusion of the OCP. Since then, devolution has been of major

concern of the JPC. It may be defined in terms of preventing onchocerciasis recrudescence in the program area through two activities: (i) epidemiological surveillance and (ii) focal treatment with ivermectin or another drug, should it become available, of new cases when these are identified.

31. For some years, OCP has struggled to put devolution into an operational framework. Initially, there was no tool (or strategy) available that the countries could employ on their own should there be a recrudescence of the disease. It also became evident that it made more sense to defer devolution of responsibility until, through the efforts of OCP, the level of onchocerciasis became such that the risk of its recrudescence was negligible. This was necessary since, to be effective, larviciding must be international in coverage and only the OCP itself was equipped to undertake vector control operations on such a scale. Now, encouragement is being given to the countries to develop what is necessary for them to maintain the achievements of the OCP after the larviciding program ceases and so prevent recrudescence. The recent introduction of ivermectin has provided the countries with a tool to treat new cases of the disease. As mentioned above, although ivermectin is not proven as a control mechanism on its own, properly administered, it should keep the disease at bay. Seven countries where onchocerciasis is now well under control, Burkina Faso, Benin, Côte d'Ivoire, Ghana, Mali and Niger, and Togo have thus far prepared first step devolution plans. Technical support will be provided by the OCP to implement these plans.

32. Meanwhile, to try to overcome this hurdle towards devolution, the OCP has involved the Participating Country governments in the Western Extension area in other constructive ways. From the outset all staff engaged in the OCP, whether national or expatriate, have been employees of WHO. This was modified in 1986 in the extension countries where staff were seconded to OCP but received a supplementary payment and per diem from the program. The national governments in the extension area now provide the personnel necessary to staff the entomological sector offices and the mobile teams involved in blackfly surveys. These governments are also participating fully in the ivermectin distribution program.

<u>Reasons for Success</u>

33. <u>Clearly Defined Objectives and Timeframe.</u> The most important lesson from the OCP experience is that a limited and realistic objective, unambiguously defined, and shared equally by program staff, beneficiaries, donors and sponsors, is a precondition for success. Such an objective gives the program a clear mandate and the legitimacy to pursue it. A mandate of this nature should not be equated with a narrowly defined operational strategy. While the OCP, for example, uses larviciding as its principal control tool, larviciding <u>per se</u> has never become the program's objective. Larviciding was never confused with onchocerciasis control. The latter point is especially important since many other health programs and other targeted development efforts have confused ends and means -- with poor results. Malaria control programs, for example, set out to control malaria but soon became extremely rigid DDT spraying programs which later proved unable to adapt to changing epidemiological or fiscal conditions.

34. The OCP has been guided throughout by technical considerations and not by political pressures. This was exemplified in 1986 when Côte d'Ivoire made a strong plea to have the OCP area extended to control onchocerciasis in the forest area. The EAC examined the situation in 1987 and reported to the JPC later that year that OCP's mandate was control of the blinding form of onchocerciasis in the savannah areas and such an extension was not justified. Despite further pleas by Côte d'Ivoire, the EAC maintained its advice to the JPC, which enabled the JPC to make a definitive decision not to extend operations, thus saving the program from both operational and financial difficulties. Such single-mindedness of purpose has been a critical dimension in the successful implementation and day to day management of the program.

35. The OCP and the donors agreed at the beginning of the program on a realistic timeframe for achievement of program objectives. The request for a 20-year commitment by the donors was unprecedented and did not meet with the immediate approval of potential donors. Nonetheless, the proponents of the program remained firm in their assessment that this timeframe was appropriate and realistic based on epidemiological facts (principally the then conceived 15 to 18 year lifespan of the adult worm).

36. Choice of Technology. Part of the program's success can be attributed to its conscientious pursuit of the best technology available for any task. Consequently, aircraft have been used to apply larvicide and, more recently, water level data have been transmitted using state of the art methods via satellite enabling more accurate spraying levels so reducing environmental risk. Computer modelling of onchocerciasis transmission has been developed and is used in forecasting the progress of operations. Chromosome reading was introduced to identify species of the *S. damnosum* complex more efficiently and the separation of vector and non-vector species. This reliance on the most advanced tools available has helped maintain the cost-efficiency of operations.

37. Contracting Out Highly Specialized Tasks. Another lesson which is of broader interest concerns the contracting out of highly specialized operations. Aerial spraying operations, the key element in the OCP strategy, were contracted out to private companies uniquely qualified for the task. The OCP accepted early on that it lacked the expertise to undertake such a large and complex spraying effort involving a fleet of helicopters and sophisticated spraying equipment. OCP did not make the mistake that many public agencies have made -- of feeling obliged to undertake tasks considered critical to achieving program objectives with in-house staff under their direct control. It realized that it could better maintain control and demand a higher level of quality if this critical task were contracted out to a highly specialized and qualified firm.

38. Operational Research. OCP, throughout its existence, has spent about 15% of its budget on operational research which has always been considered an equal partner in program implementation. By undertaking such operations-related research, OCP has constantly improved its control technology and has even generated new control tools. It has led to the creation of a special drug development fund to seek a specific drug (a macrofilaricide suitable for mass treatment) which would interrupt onchocerciasis transmission. This

operational research has not only increased the program's efficiency and reduced costs (for example, satellite transmission of data on accurate water discharge) but has ensured survival of the program when critical technical challenges arose (for example, rapid spread of resistance). Therefore, emphasis on operational research has greatly facilitated the program's adaptation to new situations.

39. New larvicides, as soon as they were approved by the Ecological Group, were incorporated in the OCP arsenal; susceptibility testing became routine for signalling when resistance was appearing, and a change of product was called for; new techniques for identifying adults and larvae of the blackfly species were immediately exploited to target the important vectors; improved larvicide application equipment developed by the program was incorporated in the bid documents of new aerial contracts; methods of distinguishing forest from savannah types of onchocerciasis parasites are being sought to enable a more effective demarcation of the program area; a mathematical model of onchocerciasis has reached an advanced state of development enabling predictions to be made of the long-term impact of both vector and chemotherapy control and the risks of recrudescence.

40. Autonomy of the Program. The program was set up with a high degree of autonomy from the Sponsoring Agencies. Specifically, while WHO is the executing agency for the program, the OCP has never come under the direct jurisdiction of the World Health Assembly or the WHO Executive Board. Its special position has enabled it to overcome many of the administrative procedures of WHO that might have hampered implementation or brought it into competition with other health priorities of WHO. A highly specialized program such as OCP, is very different in nature from the horizontally organized Primary Health Care programs which have been promoted by WHO over the last decade. Also in this way WHO, itself a donor to the Special Fund, is effectively a co-sponsor of the program and does not charge the usual 14% agency administration fee which would normally apply.

41. The Program Director, having been delegated full responsibility for OCP matters by the Director-General of WHO, reports directly to the JPC for matters concerning the program. The program's autonomy has enabled it to adjust operations quickly as circumstances dictate. The autonomy of the OCP has proven especially important given the fact that it has been implemented during a time when attention to tropical diseases has declined vis-a-vis other important health concerns.

42. The program has been kept on track by its own in-built system of checks and balances--which in the OCP's case provided by the EAC and the EG. These bodies act as technical auditors and periodically provide objective reassurance to supporters that continued commitment is justified; they also help determine and legitimize any mid-course corrections that become necessary. The EAC and EG produce detailed scientific documents which are a staple of the annual JPC meetings. The credibility generated by this open flow of information has helped maintain donor support. There is also the financial auditing of the program which is carried out annually by both the internal and external auditors of WHO, who have been very constructive and laudatory in their comments on OCP. As fiscal agent, the Bank, on its own and

through the CSA also maintains a financial brief on the Program's operations and expenditures on behalf of the JPC.

43. Governance of the Program. Delegation of authority to those most closely involved in the program has been crucial to assuring its ongoing success. The CSA, which meets three to four times per year, has proven a useful, persistent referee of the OCP since the beginning. The delegation of responsibility for policy development and financial supervision to the CSA has enabled crucial decisions to be taken between annual meetings of the JPC. The JPC mandated the CSA to approve overruns on the budget of up to 10% in any one year, to meet unforeseen expenditures. Such overruns were possible because of the reserve held in the Trust Fund. The CSA supported the Bank in its efforts to obtain approval for a prescribed contingency reserve held in the Trust Fund to meet any emergency and to carry over the OCP from one financial phase to the next. The CSA was also given responsibility for following socioeconomic development of the area and, through the Bank, has been instrumental in fielding a number of specific studies. Overall the CSA has played a major role in ensuring that the program meets its objective by responding in a timely fashion to changing operational and financial requirements and in providing independent support when necessary.

44. Through the delegation of responsibility to him, the Program Director has direct access to the CSA as well as to the donors and to the Participating Country governments. At the national level, the Presidents of each of the Participating Countries appointed National Onchocerciasis Committees to resolve problems related to the program so that decisions can be made quickly to avoid operational delays. The independence of the EAC and the EG has enabled them to play an important role in influencing the governance of the program and has prevented technical issues from being viewed politically, a very necessary control in such a multicountry program.

45. Overall, this delegation of authority throughout the program has allowed a continuity of governance by selecting individuals devoted to the program's objectives and has ensured that a clear focus has been maintained year after year. It has also permitted a necessary degree of flexibility that has made it possible to respond in a timely and effective manner to strategic and technological problems.

46. Medium-Term Planning and Sustained Donor Commitment. In 1973, the PAG mission report made it clear that success would depend on a minimum 20-year financial commitment. Faced with the difficulty of sustaining donor support over such a long period, the program was divided into a series of medium-term planning phases. For each of these six year periods, the program prepared a detailed plan of operations outlining the objectives to be reached during that period, any modifications necessary and the estimated cost of the operations. Based on these plans approved by the JPC, the donors adjusted the level of their pledges for the period. At the start of each of the six-year financial phases these revised pledges were incorporated in a new Trust Fund Agreement signed by the donors. The Memorandum of Agreement which became an integral part of the Trust Fund Agreement was signed by the Participating Governments. These Fund Agreements have disallowed earmarking, thus permitting a high degree of flexibility in financial management of the program. In this regard,

at its scheduled meetings, the JPC has the opportunity to review any modifications detailed in annual budgets supported by Plans of Action submitted for approval. These Agreements, based on approved Plans of Operations, on the one hand tie the program into what it has to accomplish in the six year period and, on the other, obligate the donors to an agreed level of financial support for the same period and the Participating Countries to their responsibilities. They have been crucial to ensuring the successful evolution of the OCP and could provide a model for other programs involving long term commitments and cooperation between a number of donors, agencies and governments.

47. Transparency - Information Flow. The program has benefited greatly from the transparency achieved by maintaining an unrestricted flow of information about the program amongst all parties involved. It has also benefitted from its own openness to inspection and review. The program has undergone annual technical audits by the EAC which has reported its findings in frank annual reports to the JPC. The OCP itself provides a detailed progress report to each JPC meeting (both verbal and written) which covers technical, policy and financial issues. The OCP openly welcomed the Independent Commission review in 1981, the USAID Review Group review in 1985 and an Independent External Review requested by the donors in 1990. This statutory reporting system is augmented by regular visits to the donors by combined Bank/OCP missions and by the OCP to the Participating Countries. Throughout, difficulties have been openly and candidly debated; this transparency has been greatly appreciated by all parties concerned. This openness has played no small role in maintaining the confidence of an ever-increasing group of donors and has helped ensure the continual financing of the program. Confidence in the program has also encouraged Participating Countries to maintain their annual 1.4% contribution to OCP.

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VP 9/17

A L L - I N - 1 N O T E

DATE: 16-Sep-1992 11:37pm

TO: Larry Summers (LARRY SUMMERS)

FROM: Joanne Salop, OSPVP (JOANNE SALOP)

EXT.: 37499

SUBJECT: WDR 1994

Larry,

Raj asked me to canvas our directors for possible topics. I know that Tony has been in touch with you directly on Technology. There may have been other bilateral discussions that I don't know about. This note covers suggestions from OSPVP and PHR. I am sorry it is so late.

1. One suggestion is Risk and Uncertainty. There would, of course, be many ways to develop such a topic. Some issues that might be covered follow:

* It could start with a simple model of private decision-making under uncertainty, emphasizing the important implications for major development issues. Examples could illustrate the impact of risk/uncertainty on: the family's decisions about the number of children to have and how much to invest in them; the farmer's decision whether to adopt a new technology; and the entrepreneur's decision about when, where, and how to invest. Noting that risk/uncertainty can be the result of nature, or of private or public sector actions, it could consider the impact of risk/uncertainty generated by public policy actions. It could also examine experience with risk/uncertainty-reducing public policy actions.

* It could investigate the evaluation of risk/expected return tradeoffs. For the family, by how much does the child mortality rate have to fall to start having fewer children and investing more in each? For the farmer, by how much does the variance in output of the new hybrid have to fall for it to be preferred to the old faithful variety? For investors, by how much does the expected rate of return have to be higher to compensate for the perceived country risk? How should the certainty-equivalent rate of return of a risky project in the public investment program be calculated? Should countries have risk management strategies? How should they address food security? Or energy security? What about buffer stocks, strategic reserves and all that? Etc., etc., etc.

2. A second suggestion is Economies in Transition. This might summarize the range of issues confronted in the CIS and other countries -- from privatization to social safety nets. (If

transitions both ways were to be considered, it could headline your observation that it is easier to make fish soup out of an aquarium than the other way around.)

3. A third suggestion is Children in Development, which would look at development through the perspective of children in different countries. How do they differ? In knowledge, health, legal rights, responsibilities, endowments, etc.? Population would be brought in through the demand for children/family planning/demographic transition story. Gender issues would get major treatment: little girls in different country and cultural settings. Reasons for differences in relative values placed on children of different sexes in different countries could be explored.

4. Other suggestions include Nutrition and Food Security; Infrastructure; and Women in Development.

Joanne

CC: V. Rajagopalan, OSPVP	(V. RAJAGOPALAN, OSPVP)
CC: Ann Hamilton	(ANN HAMILTON)
CC: Hans Wyss	(HANS WYSS)
CC: Anthony A. Churchill	(ANTHONY A. CHURCHILL)
CC: Mohamed T. El-Ashry	(MOHAMED T. EL-ASHRY)
CC: Louis Pouliquen	(LOUIS POULIQUEN)
CC: Michel Petit	(MICHEL PETIT)
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THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

Pl. Canvass topics for the WDR ... know ... Among Directors

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DATE: September 2, 1992

TO: Distribution Below

FROM: Lawrence H. Summers, DECVP

EXTENSION: 33774

SUBJECT: 1994 World Development Report

I would like to make a proposal to the President on the topic for the next WDR in the near future. I propose that suggestions be sent to me by Thursday, September 10, with a couple of paragraphs giving the rationale and scope. I will then chair a meeting for anyone interested on Wednesday, September 16 at 10:30 am in S 9021 to agree on a shortlist.

Distribution:

RVPs, Chief Economists, Country Directors, Linn (FRPVP), Rajagopalan (OSPVP), OSP Directors, Birdsall (CECFR), Golan (EDIDR), Grilli (DPG), Ingram (RAD), Jamison (WDR), Nishimizu (FRSDR), Rao (IECDR), Salop (OSPVP), Steer (ENVDR), Pritchett (DECVP)

Ms. Salop

Sept. 9, 1992

x

Please canvass topics for the WDR from the Directors and let me know.

V. Rajagopalan

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WORLD DEVELOPMENT REPORT 1992

Overview

February 14, 1992

Overview

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Overview

1. Development remains the primary challenge facing the human race. Despite good progress over the past generation, over 1 billion people still live on less than $1 per day and suffer grossly inadequate access to the resources--education, health services, infrastructure, land, and credit--required to give them a chance for a better life. Providing opportunities so that these people, and the hundreds of millions not much better off, can reach their potential <u>is</u> the development challenge.

2. But while there is universal recognition of the desirability of development, recent years have witnessed increased concerns about whether environmental constraints will limit development, and whether development will continue to have serious environmental consequences--in turn causing reduced welfare for this and future generations. This concern is long overdue. A number of environmental problems are already very serious and require urgent attention. Mankind's stake in environmental protection is enormous, and environmental values have been neglected too often in the past.

3. This Report explores the relationship between development and the environment. It attempts to present an assessment of how environmental problems can and do undermine the goals of development. There are two ways in which this can happen. First, environmental quality--water that is safe and adequate, and air that is healthy--is itself an element of the improved welfare that development attempts to bring. If the benefits from rising incomes are offset by the costs of deteriorating health conditions induced by pollution, this cannot be called development. Second, environmental damage can undermine future productivity. Soils that are eroded, aquifers that are depleted and ecosystems that are lost in the name of raising incomes today, can jeopardize the prospects for earning income tomorrow. In many instances environmental problems are already imposing heavy costs on human health and productivity and require urgent action.

4. The Report also explores the complementarities and trade-offs between policies for efficient income growth and those for environmental protection. Its message is positive. There are strong complementarities which remain unexploited. The most important of these relates to poverty alleviation: not only is reducing poverty a moral imperative, it is also essential for environmental stewardship. Rising income will create the resources necessary for environmental protection and such protection will help ensure the possibility of future income growth. In addition, very substantial environmental gains are achievable through policies and programs that would be economically justified even if there were no environmental problems. Eliminating subsidies to the use of fossil fuels and water, allowing poor farmers to have property rights on the land they farm, making heavily polluting state steel companies more competitive, and eliminating rules that reward those who clear forests with property rights are examples of policies which improve economic efficiency and also operate to reduce environmental problems. Similarly, investing in better sanitation and water

and in improved research and extension services can both improve the environment and raise incomes.

5. But sound development policies are not enough to ensure environmental quality. The Report also demonstrates the need for environmental policies and specialist institutions both for the maintenance of natural systems and for development. The world has learned over the last two decades that markets can do more and governments should do less to promote development than was once thought to be the case. But environmental protection is one area where government must maintain a central role. Private markets provide little or no incentive for curbing destructive forms of pollution. In the case of air pollution in urban centers, the dumping of unsanitary wastes in public waters, or the overuse of land whose ownership is unclear, there is compelling case for public action. Here there may be trade-offs between income growth and environmental protection. This will call for a careful assessment of the benefits and costs of alternative policies as they affect both today's population and that of the future. The evidence suggests that the gains from protection are often high and that costs in terms of foregone income are modest if appropriate policies are adopted. Experience suggests that policies are most effective when they aim at underlying causes rather than symptoms, concentrate on addressing those problems where the benefits of reform are greatest, use incentives rather than commands where possible, recognize administrative constraints, and are tailored to specific problems.

6. Making decisions about some environmental problems is complicated by uncertainties about physical and ecological processes, by the long term nature of their impacts, and by the possibility of thresholds and irreversible change. Global atmospheric issues and problems relating to tropical ecosystems are notable here. New evidence that the impact of CFCs on stratospheric ozone depletion is greater than earlier thought is a timely reminder of how little we know. These uncertainties call for more, not less, rationality in decisionmaking. Possible downside events need to be factored into calculations of costs and benefits of alternative policies, and much greater attention given to research and to designing cost-effective precautionary policies.

7. This Report is about development and the environment, so its primary focus is the welfare of developing countries. The most important problems are local in scope and will be solved by local and national initiatives. But rich countries have a crucial role to play. First, they have their own serious problems, and have accumulated experience and technologies in addressing them; developing countries can benefit from lessons of success and failure, and need to have access to new less-damaging technologies and practices. Second, some of the potential problems facing developing countries--global warming and ozone depletion in particular--are likely to be caused by the behavior of rich countries, thus putting the burden on them to find solutions or make compensatory arrangements. Third, some of the benefits from environmental policies in developing countries--the protection of

tropical forests and biodiversity for example--accrue to rich countries, who ought thus to bear their part of the costs. Finally, the strong and growing evidence of the links between poverty reduction and environmental goals makes a compelling case for greater support for poverty reducing and population programs.

8. The policy reforms and institutional changes required to bring about accelerated development and better environmental management are large, and obstacles are great. Nevertheless, the current time is unprecedented in its potential for change. The growing recognition of the importance of environmental concerns, the rapid pace of policy reforms towards market-friendly economic structures around the world, and the ongoing trend towards democratization and participation in the development process all point in the right direction. The United Nations Conference on Environment and Development (UNCED) in June 1992 provides the opportunity to the international community as well as to domestic policymakers to commit themselves to an agenda of reform. It is essential that the remarkable energies that have been unleashed by UNCED not be dissipated but rather be harnessed toward addressing those environmental problems that most urgently threaten development prospects.

Focussing on the right problems

9. This Report makes no attempt to be comprehensive in its description of environmental problems, but rather seeks to identify the most serious challenges and suggests strategies for addressing them. Not every problem can be a priority. Taking the view that the highest priority environmental issues are those that impact directly on the welfare of large numbers of people, the Report concludes that within the current environmental debate inadequate attention is being paid to certain local problems. These include inadequate sanitation and clean water in urban and rural areas, localized heavy concentrations of air pollutants, indoor air pollution, and severe land degradation.

10. Damage to environment has three potential costs to human welfare both now and in the future. Human health may be damaged. Economic productivity may be reduced. And the pleasure or satisfaction obtained from an unspoiled environment may be lost. All are difficult to measure, but the third impact, often referred to as the "amenity" value of the environment, is especially so. It includes values that range from those associated with recreation to those associated with deeply held religious views about the intrinsic value of the natural world. Its difficulty in measurement argues for a strongly participatory process of priority setting. Box 2 illustrates the potential consequences of different forms of

Box 1 Sustainable development

The term "sustainable development" was brought into common usage by the World Commission on Environment and Development (the Brundtland Commission) in its seminal report Our Common Future, 1987. The idea of sustaining the earth has proven a powerful metaphor in raising public awareness and focussing upon the need for better environmental stewardship.

The Brundtland Commission's definition of the term--"meeting the needs of the present generation without compromising the needs of future generations"-- is strongly endorsed by this Report. We also believe, with the Brundtland Commission, that meeting the needs of this generation, especially those of the poor, is almost always the best way of meeting the needs of subsequent generations. There is no difference between the goals of development policy and appropriate environmental protection. Both must be designed to improve welfare.

Making the concept of sustainability precise, however, has proven difficult. It is not plausible to say, as some advocates of sustainability have suggested, that all natural resources should be preserved. Successful development will inevitably involve some amount of land clearing, oil drilling, river damming and swamp draining. Others have argued that natural capital should be preserved in some aggregate sense, with losses in one area needed to be replenished elsewhere. This requires the ability to compare the costs and benefits of preserving different types of trees or forests as opposed to lakes or other forms of national resources.

This Report supports such efforts to assess values, but goes further. It suggests that the most appropriate way to make environmental decisions is on the basis of a comparison of costs and benefits, taking account of the uncertainties and irrversibilities associated with some environmental processes, and recognizing that some of the benefits of the environment come in intangible forms and that some impacts can be long term in nature. The value of environmental resources has been ignored or underestimated by policymakers and donors for too long. Application of the principles of comparing benefits and costs, and of the sound developmental and environmental policies which stem from it, will dramatically strengthen environmental protection and lead to rising levels of welfare which are sustainable. When this Report uses the term "sustainable development" or "environmentally-responsible" development, it refers to this narrower definition.

Box 2 Principal health and productivity consequences of environmental mis-management

	Health	Productivity
Water pollution and scarcity	Pollution contributes to over 3 million deaths and billions of illnesses annually; scarcity results in poor household hygiene and added health risks.	Declining fisheries; rural household time and municipal costs of providing safe water; aquifer depletion resulting in irreversible compaction; economic activity constrained by water shortages.
Air pollution	Many acute and chronic health impacts: excessive urban particulate matter levels are responsible for 300,000-700,000 premature deaths annually, and half of childhood chronic coughing; millions of women and children in poor rural areas affected by smokey indoor air.	Vehicle and industrial activity prohibitions during critical episodes; acid rain impact on forests and water bodies.
Solid and hazardous wastes	Rotting garbage spreads diseases and blocks drains. Hazardous waste risks are typically local but often acute.	Pollution of groundwater resources.
Soil degradation		Field productivity losses in range of 0.5-1.5 percent of GNP common on tropical soils; off-site siltation of reservoirs, river-transport channels, and other hydrological investments.
Deforestation	Localized flooding leading to death and disease.	Loss of sustainable logging potential, erosion prevention, watershed stability, and carbon sequestration.
Loss of biodiversity	Potential loss of new drugs.	Reduction of ecosystem adaptability and loss of genetic resources.
Atmospheric changes	Possible shifts in vector-borne diseases; risks from climatic natural disasters; ozone depletion may account annually for 300,000 extra cases of skin cancer worldwide, resulting in 3000-15,000 premature deaths; and 1.7 million cases of eye damage.	Sea-rise damage to coastal investments; regional changes in agricultural productivity; disruption of marine food chain.

environmental concern for health and productivity. Since problems vary across countries and with the stage of industrialization each country needs to assess carefully its own priorities.

Providing clean water and sanitation

11. For the 1 billion people in developing countries who do not have access to clean water and the 1.7 billion who do not have access to sanitation, these are the most important environmental challenges of all. The effects of unsafe water on health are shocking: it is a major contributor to the 900 million cases of diarrheal diseases annually, which result in 5 million deaths of children. At any time there are 500 million people suffering from trachoma, 200 million from schistosomiasis or bilharzia, and 900 million from hookworm. Cholera, typhoid, and paratyphoid also continue to wreak havoc with human lives and welfare. Providing access to sanitation and clean water would not eradicate all these diseases, but would be the single most effective means of alleviating human distress.

12. The economic costs of inadequate provision are also high. Many women in Africa spend more than two hours per day fetching water. In Jakarta an amount equivalent to 1 percent of the city's GDP is spent each year on boiling water, and in cities such as Bangkok, Mexico City, Jakarta, and Venice excessive pumping of groundwater has led to subsidence, structural damage, and flooding.

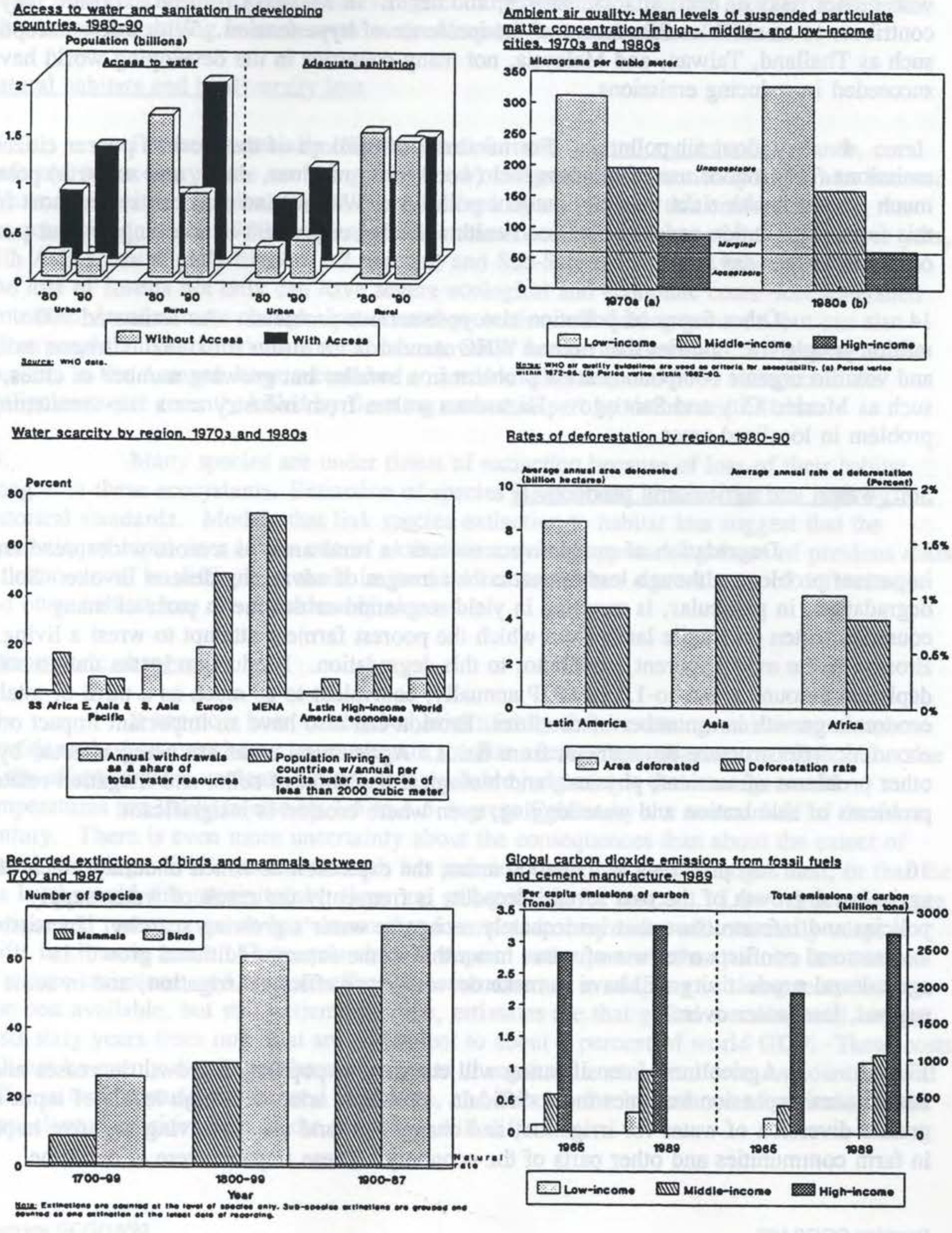
Providing clean air

13. Emissions from industrial and transport activities and from domestic energy consumption also impose serious health and productivity costs. In terms of the magnitude of human suffering, three specific problems stand out:

◆ Suspended particulate matter. Estimates suggest that in the second half of the 1980s about 1.2 billion people worldwide lived in urban areas not meeting WHO standards and thus faced the threat of serious respiratory disorders and cancers. If emissions could be reduced so that these standards were met everywhere, an estimated 300,000-700,000 lives could be saved each year.

◆ Lead. High levels of lead, primarily from vehicle emissions, have been identified as the primary environmental danger in a number of major cities in the developing world. Estimates for Bangkok suggest that the average child has lost four or more IQ points by the age of seven because of elevated exposure to lead, with enduring implications for adult productivity. In adults, the consequences include risks of higher blood pressure along

Figure 1 Selected environmental indicators



with higher risks of heart attacks, strokes, and death. In Mexico City lead exposure may contribute to as much as 20 percent of the incidence of hypertension. With a few exceptions such as Thailand, Taiwan, and Malaysia, not many countries in the developing world have succeeded in reducing emissions.

- Indoor air pollution. For hundreds of millions of the world's poorer citizens, emissions from indoor use of biomass fuel (wood, crop residues, dung, and so forth) pose much greater health risks than any outdoor pollution. Women and children suffer most from this form of pollution and its effects on health are often equivalent to smoking several packs of cigarettes per day.

14. Other forms of pollution also pose serious problems. An estimated 900 million people live in cities that exceed WHO standards for sulfur dioxide. Nitrogen oxides and volatile organic compounds are a problem in a smaller but growing number of cities, such as Mexico City and Santiago . Hazardous wastes from industry are a life-threatening problem in localized areas.

Soil, water, and agricultural productivity

15. Degradation of productive resources in rural areas is a more widespread and important problem, although less dramatic than images of advancing deserts invoke. Soil degradation, in particular, is resulting in yield stagnation or decline in parts of many countries, often on fragile lands from which the poorest farmers attempt to wrest a living. Erosion is the most apparent contributor to this degradation. Production losses due to soil depletion amount to 0.5-to-1.5 of GDP annually, equivalent to as much as a third of total economic growth in a number of countries. Erosion can also have an important impact on economic infrastructure downstream from fields. Agricultural areas are being affected by other problems of nutrient, physical, and biological depletion of soils, and irrigation-related problems of salinization and waterlogging, even where erosion is insignificant.

16. Soil problems in irrigation areas, the expansion of which underlay much of agricultural growth of the past several decades, is frequently the result of water supply policies and infrastructure that inadequately recognize water's growing scarcity. Increasing intersectoral conflicts over use of water mean that in the future, additional growth in agricultural productivity will have to make do with more efficient irrigation, and in some regions, less water overall.

17. Agricultural intensification will continue as population growth increases and further area expansion becomes more difficult. Problems arise with high levels of input use, greater diversion of water for irrigation, and changes in land use, involving negative impacts in farm communities and other parts of the economy. These impacts were at one time

mostly restricted to the highly intensive agricultural systems of Europe and North America, but are now increasing in such areas as the Punjab, Java, and parts of China.

Natural habitats and biodiversity loss

18. Forests (especially moist tropical forests), coastal and inland wetlands, coral reefs and other ecosystems are being converted or degraded at historically high rates because of human activity. Tropical forests have declined by one-fifth in this century and the rate has accelerated; in the 1980s tropical deforestation occurred at a rate of 0.9 percent per year, with Asia's rate slightly higher (1.2 percent) and Sub-Saharan Africa's lower (0.8 percent). The loss of forests not only can have severe ecological and economic costs--lost watershed protection, local climate change, lost coastal protection and fishing grounds--but can also affect people's lives. African women have to walk farther for fuelwood, indigenous forest dwellers in the Amazon have succumbed to settlers' diseases, and 5000 villagers in the Philippines were recently killed by flooding caused in part by deforested hillsides.

19. Many species are under threat of extinction because of loss of their habitat along with these ecosystems. Extinction of species is occurring at rates that are high by historical standards. Models that link species extinction to habitat loss suggest that the possibility of rapid rises in the rate of extinction to levels approaching those of previous mass extinctions will be difficult to avoid in the next century unless current rates of deforestation and other habitat loss are considerably slowed.

Atmospheric changes

20. It has now been established scientifically that increasing emissions of carbon dioxide and other greenhouse gases operate to raise average temperatures on earth. The size of the effect remains unclear, but the best available judgment is that average world temperatures are likely to rise by 1.5 to 4.5 degrees Celsius by the second half of the next century. There is even more uncertainty about the consequences than about the extent of global warming. While recent research has reduced fears that icecaps might melt, or that the sea level would rise precipitously, there are still grounds for concern. Low-lying nations are at risk, and recent research has shown that forests and ecosystems will not easily adapt to shifts in climatic zones. Consequences will depend both upon whether policies are adopted to reduce emissions, and on how effective economies are in adapting to rising temperatures. The best available, but still extremely crude, estimates are that global warming will impose costs sixty years from now that are equivalent to about 1 percent of world GDP. These costs will not be evenly distributed because climate changes will not be uniform, as countries will differ in their capacity to respond to change, and because the importance of agriculture, the most climate-sensitive part of the economy, will differ.

Development, the environment and the long term prospect

21. Environmental problems facing countries will vary with the stage of development, the structure of the economy and the incentive framework. Some problems are associated with the lack of economic development; inadequate sanitation and clean water, indoor air pollution due to biomass burning and many types of land degradation in developing countries are due to a lack of resources, especially on the part of the poor. Here the challenge is to accelerate equitable income growth and promote access to the required resources and technologies. Many other problems stem from the growth of economic activity. Industrial and energy-related pollution (local and global), deforestation due to commercial logging, and depletion of water resources are due to economic expansion that fails to take account of the value of the environment. Here the challenge is to force the recognition of environmental scarcity into decisionmaking. Addressing both problems can be made more difficult in the face of rapid population growth.

Population, poverty and the environment

22. The world's population is now growing by about 1.7 percent per year. Although down from its peak of 2.1 percent in the late 1960s, the absolute growth--100 million per year--has never been higher. Rapid population growth, together with inadequate policies and institutions, can contribute to environmental damage. Traditional land and resource management systems may be unable to adapt fast enough to prevent overuse, and governments and families may be unable to keep up with the infrastructure and basic needs of a growing population. In addition, the sheer density of population will pose challenges for environmental management. Today, for example, apart from small islands and city states, only Bangladesh, Java, Korea, and the Netherlands have densities exceeding 400 per square km. By the middle of the next century, however, it is likely that one-third of the world's population will live in countries with these population densities. Virtually all of South Asia would have such densities (Bangladesh's would rise to 1,700 per square km), as would a substantial number of African countries, the Philippines, and Viet Nam.

23. Rapid population growth can exacerbate the two-way relationship between poverty and environmental damage. The poor are both victims and agents of environmental damage. Because they lack resources and technology, land-hungry farmers resort to cultivating erosion-prone hillsides, and moving into tropical forest areas, where crop yields on cleared fields usually drop sharply after just a few years. Poor families often have to focus on urgent short-term needs, and because credit is not available, sometimes have to "mine" natural capital such as through excessive cutting of trees for firewood, and failing to replace soil nutrients.

24. Agricultural stagnation in Africa is a particularly clear example of the mutually reinforcing nexus of poverty, population growth and environmental damage. The slowly evolving process of intensification that occurred in the first half of this century has proven unable to keep up in the face of sharply accelerated population growth over the past four decades. Low productivity caused mainly by poor incentives and service provision, is contributing to the delay of the demographic transition, encouraging land degradation, and deforestation, which in turn lowers productivity. Africa's forests declined by 8 percent in the 1980s, 80 percent of Africa's pasture and range areas show signs of damage, and in countries like Burundi, Kenya, Lesotho, Liberia, Mauritania, and Rwanda, fallow periods in many instances are insufficient to restore soil fertility.

25. The only lasting solution lies in raising incomes through better policies and service provision to promote productivity growth both on and off-farm, and accelerated human resource programs. Improving education for girls may be the most important long-term environmental policy in Africa and in other parts of the developing world. Recent evidence provides convincing evidence of the very strong links between education and reduced fertility; netting out other important factors such as income, a secondary education compared with three years of primary education reduces the number of children born to a woman from seven to four. Policies which liberate women to determine their own reproductive behavior can raise family wellbeing and, over time, reduce environmental damage.

26. In the 1990-2030 period the world's population is likely to grow by 3.5 billion--an increase much greater than in any previous generation, and probably much greater than in any succeeding one. Ninety percent of this increase will occur in developing countries. Over the next four decades, Africa's population is expected to rise from 500 million to 1.5 billion, Asia's from 3.1 billion to 5.1 billion, and Latin America's from 450 million to 750 million. The declining fertility rates associated with these projections should not be taken for granted. They are rapid in historical context, they imply substantial progress in education and income opportunities for women and they assume a doubling of annual expenditure on family planning programs from 4 billion to 8 billion during the 1990s.

27. Urban areas will receive 90 percent of the increased population due to growing opportunities in the industrial and services industries. Indeed only in Africa and Central America are rural populations expected to be still increasing within a generation. Urbanization can help reduce pressure on rural environmental resources, but brings with it a different set of challenges associated with industrial growth, emissions and wastes.

Economic scale and the environment

28. What pressures will growing economic scale place on the natural environment in the coming years? To assess this question, the Report explores a long-term projection of the scale of economic output. Under present productivity trends, and given projected population increases, developing country output would rise by 4 percent per year between 1990 and 2030, and by the end of the period would be about six times what it is today. Industrial country output would rise more slowly but would still triple over the period. World output by 2030 would be 3.5 times what it is today, or roughly $62 trillion.

29. Under present resource use practices and emissions coefficients, this would produce appalling problems of pollution and damage. Tens of millions of people would probably die each year as a result of local pollutants, water shortages would become intolerable, and tropical forests and other natural habitats would be a fraction of their current size. This possibility is clear and real. The Report argues, however, that this need not occur, and will not if appropriate policies and institutional arrangements are put in place.

30. The earth's "sources" are limited and so too is the absorptive capacity of the earth's "sinks." Whether this will also place limits on the growth of human activity will depend upon the scope for substitution, efficiency gains and structural change. Evidence suggests that when decisionmakers are forced to respect the scarcity and limits of natural resources, these forces can be powerful. This is evident in the use of metals and minerals for example. While fears that the world would run out of these resources were fashionable even fifteen years ago, it is now almost universally recognized that the potential supply is outstripping its demand. Their prices have trended downwards fairly consistently over the last 100 years and fell particularly sharply in the 1980s, prompting many to suggest that the real development problem is not that of shortage but of gluts, which threaten to impoverish countries dependent on commodity exports. This situation is in sharp contrast to other natural resources such as water, where severe signs of stress are observed, and are already critical in some parts. Demand for water, already often exceeds supply not only in the arid areas of the Middle East, but in places such as Northern China, East Java, and parts of India. Aquifers are being depleted, sometimes irreversibly, and the take-off from rivers is often so great that further expansion of irrigation systems is becoming severely limited and the rivers' ecological functions impaired.

31. The reason why some resources, like water, forests and clean air are under siege and why others, like metals, minerals, and energy, are not is that the scarcity of the latter are reflected in market prices, so the forces of substitution, efficiency, and structural change are strong. The former are characterized by open access, so incentives to use resources sparingly do not exist. In these situations, policies and institutions need to be put in place that force decisionmakers--corporations, farmers, households, governments--to

reflect the social value of these resources in their actions. This is not easy. However, the evidence suggests that where environmental policies are publicly supported and firmly enforced, the positive forces of substitution, efficiency, and structural change can be just as powerful as for marketed inputs like metals and minerals. This explains why the environmental debate has rightly shifted away from a concern over <u>physical limits</u> to growth toward a concern about incentives for <u>human behavior</u> and policies to overcome <u>market and policy failures</u>.

32. Strong measures are required to change the <u>way</u> in which goods and services are produced, and in many instances these measures change the <u>composition</u> of what is produced. But whether the <u>level</u> or even <u>growth</u> of economic activity will be affected will depend on the circumstances. In some situations--as in forest protection or in emissions control--short term growth may fall, even as welfare may rise. In other cases--improved soil management or investments in sanitation--the effect on output and income is likely to be positive.

<u>Policies for development and the environment</u>

33. There are two broad sets of policies needed to attack the underlying causes of environmental damage. Both are necessary. Neither will be sufficient on its own. First are policies which seek to harness the positive links between development and the environment, by removing government failures, improving access to resources and technology, and promoting equitable income growth. These policies are essential, but wont take care of many market failures. So a second set of policies is needed to be targeted at specific environmental problems; regulations and incentives are required to force the recognition of environmental values in decisionmaking.

<u>Building on the positive links</u>

34. Fortunately, many policies that are good for efficiency are also good for the environment. Policies that encourage efficiency produce less waste, use less raw materials and promote and implement technological innovation.

35. World Development Report 1991 described a set of "market-friendly" policies for development. These emphasized:

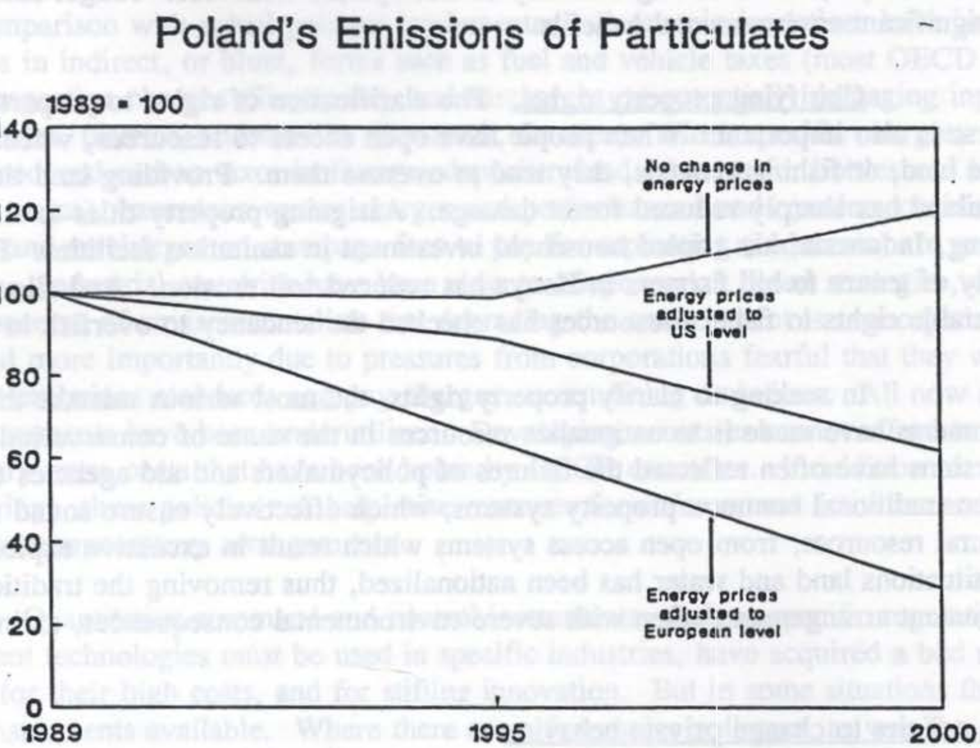
- ♦ investment in people; education, health, nutrition, and family planning
- ♦ creating the right climate for enterprise, through ensuring competitive markets, removing market rigidities, and providing infrastructure
- ♦ integration with the global economy; promoting open trade and capital flows
- ♦ ensuring macroeconomic stability

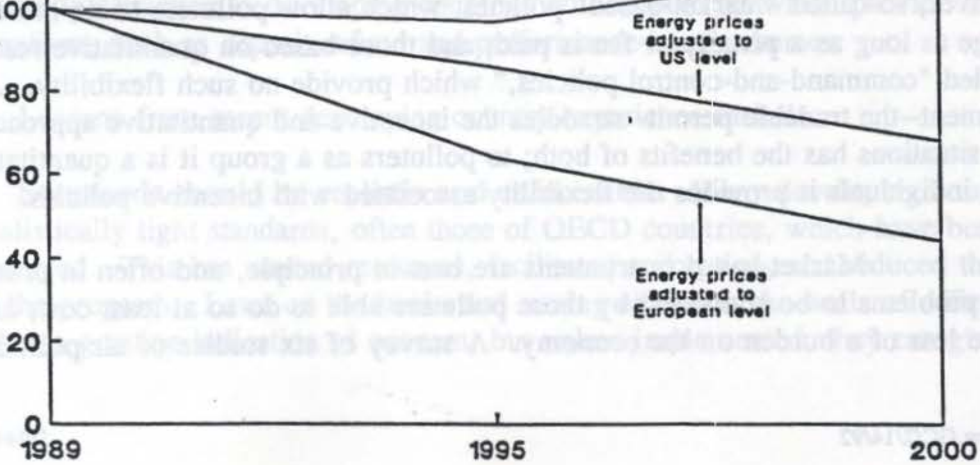
36. All of these policies can enable improved environmental management. For example, improved education is essential for the widespread adoption of environmentally sound agricultural technologies, which are more knowledge-intensive than conventional approaches. And freedom of international capital flows and a competitive environment has been found to greatly enhance the transfer of new less-polluting technologies. However, there are two elements of this package are especially important: the removal of distortions that encourage too much resource use, and the clarification of property rights.

37. Removing distortions. Some government policies are downright harmful to the environment. Notable here are distorted prices in general and subsidized input prices in particular. Many countries still subsidize energy inputs, which are a major cause of local, regional, and global pollution. These subsidies cost developing country governments more than $140 billion per year--three times the total world volume of official development assistance. Estimates for Eastern Europe and the former Soviet Union suggest that more than half of all air pollution is attributable to these distortions (see Figure 2). If all energy subsidies were removed worldwide, including those on coal in OECD countries, this would not only produce large gains in efficiency and in fiscal balances, but would sharply reduce local pollution problems, and also reduce worldwide carbon emissions from energy use by 9 percent. There are other distortionary incentives that have had serious environmental consequences. Logging fees in a sample of five African countries range from 1 percent to 33 percent of replacement costs. Irrigation charges in most Asian countries cover less than 20 percent of costs. And pesticide subsidies in a sample of seven countries in Latin America, Africa, and Asia ranged from 19 to 83 percent of costs.

38. Distorted incentives are often particularly evident in the behavior of state-owned enterprises. This is important because many sectors in which state enterprises are prominent--power generation, cement, steel, and mining--are heavy polluters; the "commanding heights" are also the "polluting heights." Thus, improving the accountability of state-enterprise management, exposing them to the same competitive price framework as

Figure 2 Impact of energy prices on air pollution in Poland





the private sector, and ensuring that they do not operate with 'soft' budget constraints can have significant environmental benefits.

39. Clarifying property rights. The clarification of rights to property and to legal recourse is also important. When people have open access to resources, whether in forests, pasture land, or fishing grounds, they tend to overuse them. Providing land titles to farmers in Thailand has sharply reduced forest damage. Assigning property titles to slum dwellers in Bandung, Indonesia, has tripled household investment in sanitation facilities. Providing security of tenure to hill farmers in Kenya has reduced soil erosion. And allocating transferable rights to fishery resources has checked the tendency to overfish in New Zealand.

40. In seeking to clarify property rights, the most serious mistake that governments have made is to nationalize resources in the name of conservation. Such conversions have often reflected the failures of policymakers and aid agencies to distinguish between traditional common property systems, which effectively ensure sound management of natural resources, from open access systems which result in excessive exploitation. In some situations land and water has been nationalized, thus removing the traditional management arrangements often with severe environmental consequences, as in the forests of Nepal.

Public policies to change private behavior

41. The policies described above are important, but not enough. Eliminating fuel subsidies will not be sufficient to solve air pollution in Beijing or Mexico City. And it simply is not practical to find property rights solutions for most environmental problems which adversely affect a large number of people "offsite"--air and water pollution, watershed destruction, loss of biodiversity, and the like. In these situations specific policies are required to induce or require resource users to take account of the spillover effects of their actions on the rest of society.

42. Policies to change behavior are of two broad types: those based upon incentives, so-called "market-based" policies, which allow polluters to do more or less damage as long as a penalty or fee is paid; and those based on quantitative restrictions, the so-called "command-and-control policies," which provide no such flexibility. A third type of instrument--the tradable permit--straddles the incentive and quantitative approaches and in some situations has the benefits of both; to polluters as a group it is a quantitative restriction, but to individuals it provides the flexibility associated with incentive policies.

43. Market-based instruments are best in principle, and often in practice. They allow problems to be addressed by those polluters able to do so at least cost, and thus tend to impose less of a burden on the economy. A survey of six studies of air pollution control in

the United States found that least-cost policies could reduce costs of control by 45 to 95 percent in comparison with actual policies implemented. Economic incentives have been used for years in indirect, or blunt, forms such as fuel and vehicle taxes (most OECD countries), congestion charges (Singapore), and surcharges on potentially damaging inputs such as pesticides, plastics, and the like (Denmark, Sweden). More specific charges, such as the newly introduced carbon taxes in Europe, deposit-refund schemes for bottles and batteries (several U.S. states), hazardous wastes charges and performance bonds (under consideration in Bangkok), and surcharges on stumpage fees to pay for replanting (Indonesia) are growing in importance. Industrial countries have been slow to adopt market based strategies, due initially to concerns of environmentalists that degrading the environment is unacceptable at any price, and more importantly due to pressures from corporations fearful that they would have to adopt emissions standards and pay charges on remaining emissions. All now agree that these instruments have been underutilized. Developing countries cannot afford to incur the unnecessary extra costs that have been borne by OECD countries. In addition to economic savings, these policies can help raise revenues for enforcement activities and potentially for compensatory arrangements.

44. Quantitative command-and-control instruments, such as specific regulations on what abatement technologies must be used in specific industries, have acquired a bad name in recent years for their high costs, and for stifling innovation. But in some situations they may be the best instruments available. Where there are a few major polluters, as was the case of the industrial city of Cubatao in Brazil, the most effective means may be direct regulation. Managing land use in frontier areas is another example where direct control may be required.

45. The appropriate instrument choice will depend upon the circumstance. Conserving scarce administrative capacity is a very important consideration. For developing countries, blunter instruments with fewer points of intervention may be attractive. These may be market based (fuel taxes rather than emissions controls), or command-and-control (logging bans rather than fines for failing to replant). Policymakers need to be clear on the economic costs of such measures, however. Policies which, over prolonged periods, provide no incentive to the private sector to solve its own environmental problems are likely to be costly. Particularly attractive to developing countries will be policies which provide self-enforcing incentives, such as deposit-refund and performance-bond schemes.

46. Lessons from recent developing country experience include:

♦ **Standards should be realistic and enforceable.** Many developing countries have set unrealistically tight standards, often those of OECD countries, which have been only selectively enforced. This has wasted resources, facilitated corruption, and reduced the credibility of the program. Laws on the books and zoning charts on the walls of official offices are often a genuine indication of concern, but unless implemented, they can give a false sense that serious problems are under control. Better to have fewer and more realistic standards that are truly implemented.

♦ **Controls must be consistent with the overall policy framework.** Many well-intentioned policies have been thwarted by other policies pulling in opposite directions. Both China and Poland have had pollution taxes for years, but to no effect because state-owned enterprises were uninterested in profitability. Africa's land use planning has usually failed in the face of policies which failed to encourage intensification and off-farm employment. Brazil's concern about overfishing off the Bahia coast was undermined in the early 1980s by government subsidies for new nylon nets.

♦ **A combination of policies will often be required.** Because environmental damage is often caused by different actors and for different reasons, a single policy change may not be enough. Reducing air pollution from vehicles in Mexico City, for example, will require mandated emissions and engine standards, fuel improvements, and gasoline taxes.

<u>Changing government behavior</u>

47. Public expenditures can have a remarkable effect on the environment--for bad or good. It is now clear that numerous public investments, often supported by development agencies including the World Bank, have caused damage due to the failure to take environmental considerations into account or to errors in judgment of the magnitude of impacts. Indonesia's transmigration program, Sri Lanka's Mahaweli scheme, and Brazil's Polonoreste projects are examples of large programs that caused serious damage. But equally important are design issues relating to individual project components--road alignments, the design of water systems, and the provision of access to forests and wetlands.

48. Since the analysis in the 1950s and 1960s of hydroelectric projects in the United States, considerable progress has been made in applying cost-benefit techniques to environmental concerns. Such analyses have tripled estimated returns for some forestry projects, and halved returns on some hydroelectric and road projects, making them unattractive.

49. Most countries and aid agencies have introduced environmental assessment procedures. These are still early days for such arrangements; technical skills need to be developed and lessons are being learned about the difficulties of incorporating assessment results, which are often nonquantitative, into decisionmaking. Making the process transparent has been found to be an important way of improving its quality and impact. Listening to local views has also proved essential; World Bank experience suggests needs for improving information sharing with local communities early in project identification, and for incorporating comments from affected communities in project design.

Removing impediments to action

51. Why has progress to identify and efficiently address environmental problems not been greater? Why are some serious problems ignored, and others addressed with expensive heavy-handed measures? Part of the gap between intentions and performance can be found in political economy, in inadequate data and knowledge, in weak institutions and in inadequate participation of local people in finding solutions.

Political economy considerations

52. The main reason for second-best policy-making is that stopping environmental damage often involves changing people's rights, which they resist. Industrialists, farmers, loggers, and fishermen fiercely defend the rights to exploit resources as they have for generations. The results: coal and steel industries exempted from new carbon taxation in Europe, the introduction of transferable fishing rights in Chile postponed by large-scale fishing interests, and little progress to introduce irrigation charges almost everywhere.

53. A second reason for disappointing performance relates to the inability of governments to regulate themselves. The problem stems partly from the multiple social and economic objectives of agencies, which tends to permit them to use resources less efficiently and partly from the inherent contradictions associated with being both gamekeeper and poacher. In the United States, for example, publicly-owned municipal waste water treatment plants are the most persistent violators of effluent discharge standards.

54. A third source of bias derives from the tendency to focus on environmental disasters, such as oil spills and chemical plant accidents, at the expense of more chronic problems. Environmental lobbying groups can also sometimes bias priority setting. Although such groups have played a powerful and valuable role in demonstrating the need for better environmental stewardship, their need to generate ongoing financial and other support can lead them to focus on the dramatic at the expense of the most important; few groups, for example, lobby for improved sanitation and water supply or for addressing indoor air pollution. A final bias common in developing countries is that pressures are often stronger on governments to address problems such as air pollution which affects everybody including the rich, rather than problems such as sanitation and water supply--from which the rich can insulate themselves.

Improving information

55. Ignorance is a serious impediment to finding solutions. Governments often make decisions in the absence of even rudimentary information. Not all countries should have comprehensive data systems but investments in basic data on exposure to emissions and unsanitary conditions, soil and water depletion, land capability, and forest and natural habitat loss can yield high returns. Understanding causes and effects, and costs and benefits of action, is the next stage. Following a careful analysis, the authorities in Bangkok found that attacking lead emissions was the highest priority for emissions control. The U.S. Environmental Protection Agency found that preventing mortality through controls on indoor heaters was 1,000 times more cost effective than through further tightening of hazardous waste standards. A study for Poland found that while the benefits from reducing particulate emissions would greatly exceed costs, the same would not be true of sulfur dioxide controls. Independent commissions have been found to be a useful way for governments to draw upon technical expertise; a growing number of developing countries, such as Nigeria, Thailand, and Hungary are finding that ad hoc commissions can bring professional objectivity to highly-charged issues. Africa's National Environment Action Plans, already completed for Lesotho, Madagascar, and Mauritius, and under preparation for seventeen countries, are involving technical experts and citizens' groups in setting priorities and policies.

Enhancing institutional arrangements

56. Governments around the world are actively seeking to strengthen their institutional capacity for environmental management. In addition to the clear needs for better technical skills, adequate finance, and a clarification of environmental regulations, experience suggests four areas for priority action:

◆ **Clarify objectives and ensure accountability.** The public agencies that implement programs for the environment--forest and land departments, irrigation and water supply authorities, public works departments, and agricultural extension services--need to be held accountable for the quality of environmental impact of their activities. The same applies to donors and aid agencies.

◆ **Establish the capacity to set priorities and monitor progress.** No ideal blueprint exists for environmental institutions, but a formal high-level agency for setting policies and ensuring implementation across sectors has been found to sharply improve environmental management in countries such as Brazil, China, and Nigeria.

◆ **Ensure area-wide coordination.** Where inter-sectoral decisions need to be made--the management of water within a river basin, the city-wide management of pollution and waste, the protection of large populated forest area--coordination is required to ensure consistency and cost effectiveness. Area-wide organizations have generally failed. What is needed is coordinating mechanisms with teeth: the recently-established regional pollution units in Santiago and Mexico City are beginning to address this issue.

♦ **Regulate at arms length.** While implementing agencies should be held accountable for their impact, the regulatory and monitoring functions need to be independent.

Involving local people

57. Making choices between economic benefits and environmental costs often requires subjective judgment. Involving local people, especially those potentially affected, in making those judgments is essential. Local participation also has high economic and environmental returns in implementing programs of afforestation, soil management, park protection, water management, and sanitation, drainage, and flood control. Development projects which have not built upon the strengths of existing practices have often failed. Haiti's top-down reforestation program consistently failed until small farmers and community groups were allowed to choose where and what kind of trees should be planted. The result: instead of the target of 3 million trees on 6,000 family farms, 20 million were planted on 75,000 farms. A major irrigation project in Bali, which failed to recognize the benefits of using traditional varieties and associated irrigation calendar to pest management, had disastrous results. A follow-up project, which built on indigenous strengths succeeded well. A program to manage land and water use in the face of rapid population growth in Burkina Faso was quite ineffectual until the different interests of pastoralists, traditional farmers, and immigrants were represented in the decisionmaking.

58. Involving people can be expensive and in some instances can paralyze decisionmaking, hold public investments hostage to unproductive NIMBY (not-in-my-backyard) activism, and can reinforce local power structures. Experience suggests that success is greatest when tasks are devolved selectively and progressively, based upon a track record. Increasing responsibilities for local governments is an important part of this process. Public agencies often need training in participatory approaches and a clear indication of its importance from senior management. Nongovernmental organizations need to be selected on the basis of their local knowledge and representativeness.

Putting policies to work

59. How can these principles be applied in practice to the key environmental challenges facing countries as they seek to raise living standards in an environmentally responsible manner? The Report organizes the discussion around four sets of challenges:

water supply and sanitation, emissions from energy and industry, land management and productivity, and issues which are international in nature. In each case the Report demonstrates that present patterns of behavior will need substantial modification if people's welfare is to be sustainably improved.

Water and sanitation

60. Providing sanitation and clean water is among the greatest challenges facing the world today. Addressing it will require a partnership between public and private sectors and strong support from the international donor community. Fortunately, this challenge also provides investment opportunities that have among the highest economic, social, and environmental returns anywhere. Dramatic examples exist of the costs of underinvestment and maintenance of these facilities: in the first ten weeks of the recent cholera epidemic in Peru, losses due to reduced agricultural exports and tourism were more than three times the amount invested by Peru in water supply and sanitation in the 1980s. The government urged all citizens to boil their water; this would have cost average families in squatter settlements 29 percent of their incomes.

61. Official data for developing countries show that the urban proportion served with water rose from 77 percent to 82 percent during the 1980s, and with sanitation from 69 percent to 72 percent. These figures overstate achievements. In Latin America pipe breakage and contamination is twenty times higher than in industrialized countries. In India there is not a single water supply system that provides water twenty-four hours a day. In rural areas the picture is worse; those officially covered by water supply often receive none; only 10 percent of public handpipes in rural Pakistan were functioning ten years after their installation.

62. Domestic water use will need to rise sixfold over the coming four decades, with the bulk of demand coming from urban areas, whose populations will rise by 160 percent. Current approaches will not suffice to meet these needs. Experience suggests that changes will be needed in four areas.

63. Improve water resource management. In some countries, increased urban demand for water will place severe strains on surface and groundwater supplies and will call for much more efficient allocation within river basins. Irrigation accounts for over 91 percent of withdrawals in low-income countries and 70 percent in middle-income countries, in comparison with 39 percent in high-income countries. Since domestic use almost always has a much higher private and social value than does irrigation, it is from the latter that water will need to be redirected should there be an overall constraint.

64. Water allocation is a complex issue, with deep legal and cultural traditions. Governments around the world are grappling with the difficult issues of water management; to date there are few success stories. Taking rights from rural areas will often be impossible for legal or political reasons, or undesirable for income distributional reasons. In some situations, giving more rights to rural areas, through formalizing traditional allocations can help--through enabling purchases of rural water by urban authorities. This works extremely well in modern economies, such as the western United States but requires that water flow can be monitored accurately and that firm legal recourse exists. Even in the absence of such arrangements, compensatory payments to rural communities can facilitate solutions. Paradoxically, there is good news in the current inefficiencies in irrigation water use; substantial reductions in use are often possible with only modest reductions in agricultural output, so compensation should be possible.

65. Efficiency gains are also urgently needed in urban water use. Unaccounted for water, much of it unused, is 58 percent of total water use in Manila and around 40 percent in most Latin American countries. The reclamation of waste water is helping conserve water in a growing number of cities such as Mexico City and Singapore and will expand. The most effective means of encouraging efficient water use is to raise and enforce charges. On average, householders in developing countries pay only 35 percent of the cost of supplying water.

66. Respond to customer demands. The vast majority of urban residents want in-house supplies of water of reasonable reliability and are willing to pay the full cost. Most countries, however, have based their programs on the assumption that people cannot afford to pay full costs, and thus limited public funds are used to provide low level services to restricted numbers of people. A vicious cycle of low level and low reliability service and correspondingly low willingness to pay ensues. Solutions to these problems are being actively sought in many countries. The lessons: First, provide those willing to pay with good service on a commercial basis. Second, explore ways of bringing such services to those unable to pay (much fewer than we once thought)--by allowing longer amortization of capital costs and/or "social tariffs" for low volume users. Third, offer a broader menu of options according to the incomes of the community. The Report presents a four-fold categorization of communities in developing countires and proposes strategies for each.

67. Increase investments in sanitation. While aggregate investment in water and sanitation were inadequate in the 1980s (public investment accounted for about 0.5 percent of GDP), investments in sanitation were especially low. Most investments have been for sewage collection, with almost nothing for treatment. For example, today only 2 percent of sewage in Latin America is treated. Evidence is accumulating in countries such as Brazil, Burkina Faso, Ghana, and Pakistan that willingness to pay for household sanitation at all income levels is much higher than earlier thought, and is roughly equivalent to what people

will pay for water and for electricity. This suggests good opportunities for self-financing services if facilities can be tailored to incomes. Unlike water supply, which is characterized by economies of scale and mature technologies, important innovations are occurring in sanitation. Successful local experiences are accumulating which offer good promise for massive replication in the coming years.

68. Rethink institutional arrangements. A recent review of forty years of World Bank experience identified institutional failure as the most frequent and persistent cause of poor performance. A related review of 120 projects over a twenty-year period found that in only four countries--Botswana, Korea, Singapore, and Tunisia--have public water and sewerage utilities reached acceptable levels. The number of employees per 1,000 water connections is two to three in Western Europe and ten to twenty in Latin America. Even so, in cities like Caracas and Mexico City, 30 percent of connections are not registered. Things have been getting worse rather than better. Only half of World Bank projects reached institutional goals in the late 1980s, compared with two-thirds a decade earlier. Efforts to strengthen public institutions must continue. Two conditions for better performance are essential: utilities need to be made more autonomous--and accountable for results. And they need to be placed on a sounder financial footing through better pricing policies.

69. The private sector, and community groups need to play an increasing role, both in providing contracting services and in operating water, sewerage, and solid waste facilities. Cote d'Ivoire was a pioneer in privatizing water supply; the Abidjan utility is one of the best-run in Africa. Macao privatized its water utility in 1985; water consumption doubled and unaccounted-for-water fell by half in six years. Guinea recently leased water supply; collection rates rose from 15 to 70 percent in eighteen months. Many components of the water services in Santiago-Chile are contracted out to the private sector. The city has the highest staff productivity in the sector in Latin America. What is true of water is more true for solid waste. Experience in many countries--including the United States, Canada, Switzerland, Japan, Brazil, Argentina, Chile, and Colombia--demonstrate the efficiency of private provision, with efficiency gains apparently greatest in developing countries. Privatization is not a panacea. Regulation issues are complex, and in some countries no private firms bid on contracts. Nonetheless, it is certain that the trend will accelerate in the 1990s.

70. Communities are also playing a growing role in supply especially in rural areas. Trained by government agencies or private contractors, residents' groups in countries as diverse as Pakistan, Lesotho, and the Philippines, build and operate local water schemes. Women's groups are especially important: In Bangladesh, Kenya, Lesotho, and Sudan they manage and maintain commercial water points. Experience shows that with proper training, women perform better than men; they are less likely to migrate, more accustomed to voluntary work, and more trusted to administer funds honestly.

71. Prospects for the future. Population increases, sharply rising costs of supply in urban areas, and growing per capita demands will swamp the capacity of many public utilities. Under present patterns, the numbers unserved with sanitation and safe water will rise substantially in the coming years (Figure 3). Rising incomes will help by making more resources available for investment, but even a gradual increase in investment rates by 30 percent or more (the middle curves) will not solve the problem of improving access to service. Improved access will depend fundamentally on the achievement of price and managerial efficiency via the institutional and economic reforms discussed above: they would reduce waste in supply and in consumption, attract managerial and skilled labor and financial resources into the sector, and make much wider access possible.

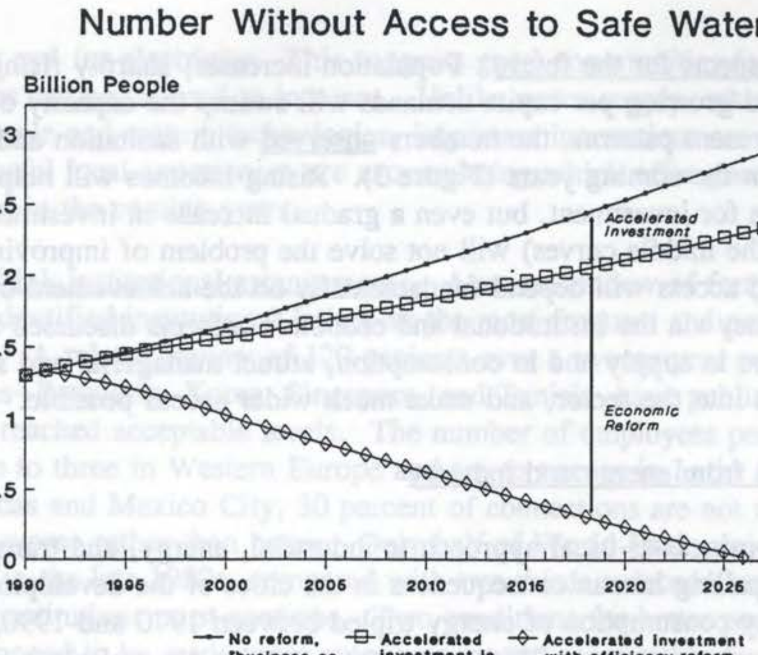
Curbing emissions from energy and industry

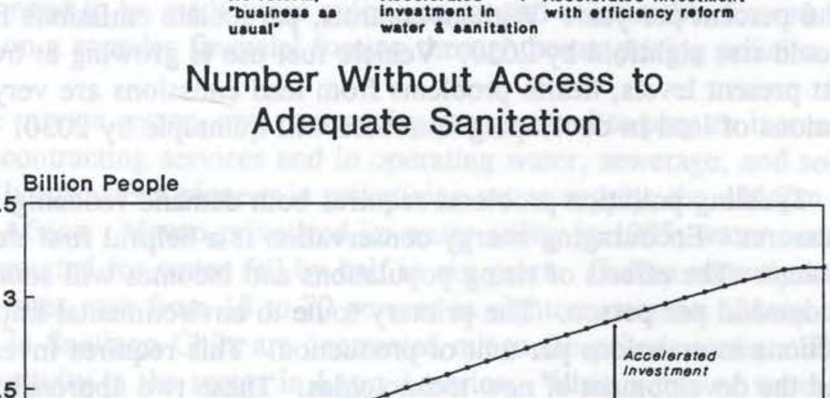
72. A business-as-usual approach to industrial, energy, and transport pollutants would produce appalling human consequences in the cities of the developing world. Developing country consumption of energy tripled between 1970 and 1990, and continues to grow by 5 to 6 percent per year. Without controls, particulate emissions from electricity generation would rise eightfold by 2030. Vehicle fuel use is growing at over 4 percent a year. Even at present levels, health problems from lead emissions are very serious; without changes emissions of lead in developing countries will quintuple by 2030.

73. Tackling pollution problems requires both demand-reducing and supply-enhancing measures. Encouraging energy conservation is a helpful first step. But it cannot solve the problem. The effects of rising populations and incomes will soon swamp any reductions in demand per person. The primary route to environmental improvement must be through reductions in emissions per unit of production. This requires investment in new equipment and the development of new technologies. These two approaches--promoting efficiency in use, and encouraging less polluting technologies--are complementary.

74. Underpricing of energy is the rule, not the exception, in most developing countries. Electricity prices are barely one-third of supply costs on average. While average tariffs in industrial countries rose in real terms by 1.4 percent per year in the 1980s, in developing countries they fell by 3.5 percent per year. Losses during transmission remain high; compared with 7 to 8 percent in industrial countries, they are 31 percent in Bangladesh and 22 percent in Thailand and the Philippines. Cutting losses by only 2 percentage points would reduce the need for investment in generating capacity by $8 billion in Asia alone--about the same as it would cost to install particulate control measures to every new power plant in the entire developing world to be built in the 1990s.

Figure 3: Water supply and sanitation--three scenarios for the future





Notes: On present trends and policies, a combination of rising population, growing supply costs, and huge wastes in supply and water consumption will rapidly outstrip the capacities of the water and sanitation authorities to improve access to service. Raising the share of investment gradually in these sectors from 2.3 percent of GDP to 3.0 percent would not prevent the situation from deteriorating. But institutional reforms and (related to this) the adoption of cost-reflecting pricing policies would do so, in three ways: by drawing into the sector more financial resources and, with this, better management and skilled labor; by reducing waste in supply and consumption; and by reducing costs (see Chapter 5 for details).

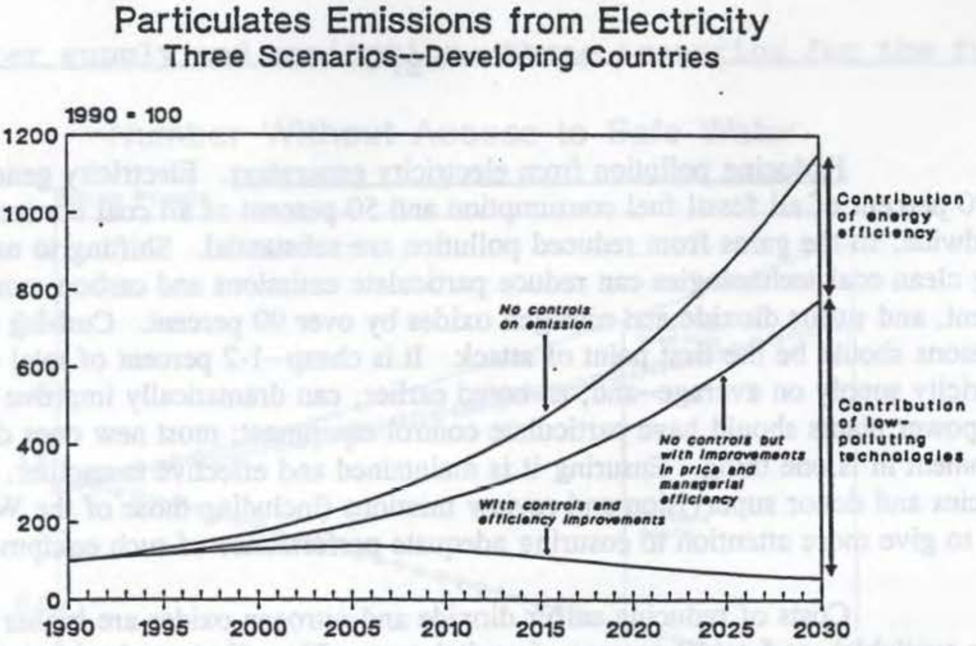
75. <u>Reducing pollution from electricity generation</u>. Electricity generation accounts for 30 percent of all fossil fuel consumption and 50 percent of all coal consumption worldwide, so the gains from reduced pollution are substantial. Shifting to natural gas and using clean coal technologies can reduce particulate emissions and carbon monoxide by 99.9 percent, and sulfur dioxide and nitrogen oxides by over 90 percent. Curbing particulate emissions should be the first point of attack. It is cheap--1-2 percent of total capital costs of electricity supply on average--and, as noted earlier, can dramatically improve health. All new power plants should have particulate control equipment; most new ones do. Putting the equipment in is one thing. Ensuring it is maintained and effective is another. Regulatory agencies and donor supervision and review missions (including those of the World Bank) need to give more attention to ensuring adequate performance of such equipment.

76. Costs of reducing sulfur dioxide and nitrogen oxides are higher (unless natural gas is available), at 5 to 10 percent of capital costs. The effects on health are usually much lower than for particulates and the impacts on forests, agriculture, and buildings vary greatly according to area. The case for setting tough standards will vary with circumstances.

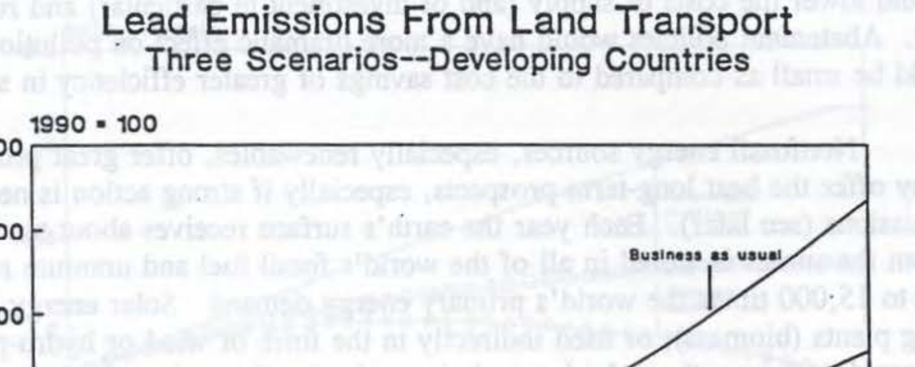
77. Reducing pollution in electricity production provides an excellent illustration of the complementarities between economic efficiency and environmental policies. First, good pricing policies--and the improved maintenance and managerial efficiency they would bring about--would lower the costs of supply (and of investment in particular) and reduce pollution (Figure 4). Abatement policies would have a more dramatic effect on pollution, while their costs would be small as compared to the cost savings of greater efficiency in supply.

78. Nonfossil energy sources, especially renewables, offer great promise. Solar energy may offer the best long-term prospects, especially if strong action is needed on carbon emissions (see later). Each year the earth's surface receives about ten times as much energy from the sun as is stored in all of the world's fossil fuel and uranium reserves--equivalent to 15,000 times the world's primary energy demand. Solar energy can be stored by growing plants (biomass), or used indirectly in the form of wind or hydro-power. But it is in its more direct uses--through photovoltaics and solar thermal systems--that progress has been most dramatic. Unit costs of production have fallen 95 percent in twenty years. The market for photovoltaics grew tenfold in the 1980s and, though still small, is growing at 20 percent a year. Applications include village electrification, irrigation pumping, and supplies to rural health clinics. Thermal solar and biomass uses for water heating and power generation are growing rapidly too. Continued rapid reductions in unit costs to make these energy sources replicable on a very large scale will require help from industrial countries. Currently only 6 percent of public research funds for energy are allocated to renewables (60 percent goes for nuclear, and 15 percent for fossil fuels). A major reordering of priorities is warranted.

Figure 4 Air pollution in developing countries--three scenarios



Notes: Electricity generation from fossil fuels doubles every 5 to 10 years in developing countries--and so would pollution in the absence of controls. Prices in developing countries average much less than 50% of supply costs. Raising them gradually to cost-reflecting levels would have three benefits: it would reduce unnecessary waste in consumption, reduce the rate of growth of pollution, and leave utilities financially better placed to maintain supplies and reduce inefficiences. Particulate controls on coal-fired plants can reduce pollution per unit of output by 99.9 percent over the long term (see Chapter 6 for details), while the savings in investments from efficiency improvements outweigh the extra costs of introducing controls by a factor of more than 10. Thus, pollution can be reduced dramatically with a big gain in economic efficiency.



Notes: Vehicle fuel taxes are low in developing countries (as they are in the United States), while (as in industrial countries) congestion pricing is not much used. The economic reform scenario (middle curve) illustrates the potential effects on emissions (with unchanged fuels) of gradually changing taxes to European levels and introducing a "Singapore model" of congestion pricing in larger cities. This would have huge economic benefits (Chapters 6 and 9) and would help to reduce pollution, in the case shown, from the use of leaded fuels. But targeted policies--to encourage the use of unleaded fuels and emissions reduction more generally--would have a more decisive effect on pollution abatement. The costs would be a small fraction of both the gains from efficiency reforms and the benefits for people's health.

79. Reducing pollution from transport. Vehicles account for 50 to 55 percent of oil consumption in developing countries and typically account for 90 to 95 percent of lead and carbon monoxide emissions. Problems are exacerbated because vehicles are often in poor condition, vehicle use is very concentrated (in Mexico and Thailand half the fleet operates in the capital city), and because pedestrians spend much more time in the open air than in industrial countries.

80. Lead is the main problem. It is being tackled effectively and relatively cheaply in industrial countries; concentrations are down 85 percent in the United States and 50 percent in Europe over the past two decades. Figure 4 shows three scenarios for lead emissions in developing countries; one based upon present trends ("business-as-usual"), one based upon improved efficiency of energy and vehicle use, and one based upon cleaner and lead-free fuels. Efficiency gains can be achieved through higher vehicle fuel taxation, such as in Europe, India, and Brazil, and through traffic management and congestion pricing. Such efficiency measures could over the next four decades economize on lead emissions by almost one-third, but emissions would still quadruple. The introduction of lead-free fuels is thus essential. Malaysia, Singapore, and recently Mexico are phasing in lead-free fuel, using both market incentives (differential fuel and vehicle taxes) and through regulations, (mandatory catalytic converters and mandated emissions standards).

81. Reducing household energy pollution. Household energy use creates both indoor and outdoor air pollution. The former is very serious in Africa and South Asia where biomass is burned for cooking in unventilated rooms. The latter is very serious where low quality coal is burnt as in China and India.

82. Progress in dealing with indoor air pollution has been disappointing. It is best addressed by switching away from biomass, which accounts for 35 percent of energy use in developing countries to more formal energy sources. The best policies are those which promote higher incomes and improved supply systems for commercial fuels and electricity. A number of programs have encouraged the development and dissemination of improved biomass stoves, which improve efficiency and reduce emissions. Experience has been mixed; but much has been learned and continued support will be important.

83. Outdoor air pollution from household coal use was once a major problem for the cities of the industrial countries, most notoriously in the fogs of London and many other industrial cities. Its solution in developing regions, as it was in the industrial countries in the 1950s and 1960s, will turn on two developments: policies which favor (a) the adoption of clean coals (such as anthracite), and (b) a transition to oil, gas, electricity and sometimes distinct heating as household energy sources.

84. Reducing industrial pollution. In attacking industrial pollution and waste, it is necessary to distinguish between large plants, which can be individually monitored and regulated, and the many thousands of small plants, which cannot. The former dominate the heavy pollution-intensive industries (chemicals, metallurgy, cement, mining, and paper and pulp). The worst problems include emissions of heavy metals for smelters and manufacturing plants (particularly severe in Eastern Europe) and toxic emissions from base chemical and fertilizer plants (especially in Latin America, Asia, and Eastern Europe). Water pollution that takes oxygen from rivers and kills river life is a problem everywhere. Technologies to deal with these problems already exist, but can be expensive for the heaviest polluters. Capital spending or controls cost 5 percent of total individual investment in Germany, Japan, and the United States in the 1980s.

85. A pragmatic approach to big polluters is required, whether through the use of command-and-control or market-based investments. The common practice of adopting industrial country standards, and then negotiating with individual firms about their enforcement has not worked. It has led to inequities and in some cases, such as in Chile's copper mining industry, is leading foreign-owned companies to argue for tight standards that are equitably applied. It is imperative that incentive-based instruments grow in importance in the coming years. Effluent charges will be especially important, and countries like Thailand are considering an approach using performance bonds for hazardous waste management. Revenues from such charges can be used for treatment facilities and administrative costs associated with environmental audits and enforcement.

86. Controlling emission from smaller plants is much more difficult. More indirect instruments are required. Taxation of inputs--energy, chemicals, technologies--can help, and deposit-refund schemes are potentially powerful. Leather tanning and smallscale gold mining pose particular problems due to their toxic emissions into rivers. Technology regulations at point of production importation, supplemented by random checks may be necessary.

Rural environmental challenges

87. Two major environmental and natural resource challenges face rural people and policymakers:

- Preventing the resource degradation that can result from rapidly growing demands for food, fuel, and fiber, and from poor stewardship due to poverty, ignorance, and corruption, and;

♦ Preserving valuable natural forests, wetlands, coastal areas and grasslands from takeover by relatively low value uses that are artificially encouraged by bad policies, imperfect markets, and flawed institutions.

Both problems and solutions differ according to who owns and manages the natural resources. Tenure arrangements vary greatly, but it is useful to think of a three-fold categorization: private farms, community managed areas, and resources that are managed by the state.

88. Problems on and around farms. Ninety percent of the doubling in food production over the past quarter century occurred through yield increases, and only 10 percent from area expansion. Intensification will certainly need to account for the great bulk of future production increases, although the exact breakdown between yield and area expansion will depend upon factors such as land use planning, technological progress, and agricultural trade policy. Whatever happens, intensification will create major environmental challenges in the coming years. The right policies are of two types: those which enable farmers to do what is in their own interests, such as managing soil better; and, those which provide incentives to stop behavior which primarily hurts others.

89. Protecting soils from erosion and nutrient depletion--an urgent priority in many parts of the world--falls mainly into the first category. A wide variety of practices applicable for local conditions and capacities are available, and others are under development. Contour-based operations, inter-cropping, agro-forestry, fertilizer application, and animal husbandry are among the more important. As Table 1 shows, these are not only good for the soils, they are good for the farmers. Why then are they not universally undertaken? Lack of

Table 1 Low cost conservation technologies and practices lead to higher crop yields

	Decrease in erosion (percent)	Increase in yield (percent)
Mulching	73-98	7-188
Contour cultivation	50-86	6-66
Grass contour hedges	40-70	38-73

access to credit markets is one important reason. Lack of knowledge of costs and benefits is another. Sometimes government failures such as artificially low farm-gate prices which undermine private profitability, or rationing of fertilizers due to subsidies or poor distribution channels, may be the cause. In all cases the complementarity between policies to development and for environmental protection are strong. Reforming agricultural policies can be politically very difficult, and strengthening local research, extension and credit systems to empower farmers to make appropriate investments requires a long term commitment, and greater support from donors. There is, however, no alternative if agriculture is to be put on a sustainable footing.

90. Preventing the overuse of pesticides involves a tradeoff between private income growth and environmental protection. Two problems are already significant and growing; the emergence of pesticide resistance (such as the brown planthopper in Southeast Asia and the cotton whitefly in Sudan), and localized health problems due to pesticide runoff. Governments are responding to this problem in three ways. First, subsidies on pesticides are being removed and taxes imposed; Indonesia now uses ___ percent less pesticide since it eliminated subsidies. Second, research efforts are yielding pesticides with shorter toxic lives and plants that are less susceptible to pests. Finally, Integrated Pest Management--a technique which uses much smaller and carefully timed applications--is being introduced in numerous countries. It is financially attractive to farmers but requires significant training in effective use.

91. Communal resource management. Many natural resources in the developing world are managed communally. Often, this results in prudent stewardship and protection. Sometimes it does not. Problems include the overgrazing of pastoral rangelands, depletion of village woodlands due to fuelwood collection, deterioration of smallscale irrigation systems, and the overfishing of lakes and nearshore waters.

92. Experience suggests that government action can often do more harm than good unless problems are serious. Where problems are serious, policymakers can either seek to strengthen communal rights and management abilities, or those of individuals within the group. Which is appropriate will depend upon societal factors as well as on administrative and legal systems. What is clear, however, is that nationalization of resources is almost never a good response.

93. Strengthening existing institutions should be the first line of attack. Experience with pastoral associations in West Africa and elsewhere suggests that successful groups are those characterized by adequate legal protection, clear leadership, and ability to raise funds. Governments and nongovernmental groups can help overcome constraints in these areas. Interventions that are too heavy-handed, however, such as the group ranching schemes in Kenya, can erode social cohesion and make individualization of property

necessary. This may not be bad for productivity or for the environment, but may have social costs.

94. Resources managed by governments. In many countries, most land and natural resources are managed and formally owned by governments. How these resource are allocated and managed will have a fundamental impact upon the rural environment in the coming years. Three questions summarize the challenge:

- ♦ how should land be allocated among alternative uses in an environmentally-responsible manner?
- ♦ how can valuable natural habitats be protected?
- ♦ how should extraction industries--logging, mining--be prudently and efficiently managed?

95. The settlement of new lands is especially important. The area brought under cultivation each year, 4.5 million hectares, is small relative to the 1.3 billion hectares unused potential cropland in developing countries, but expansion is often onto vulnerable lands, and new settlement to agriculture accounts for 60 percent of deforestation of tropical forests. Too often, encroachers pursue extractive practices, similar to mining, that deplete resources in a manner that is neither economically nor environmentally viable.

96. In an effort to promote the right kind of settlement, some governments have sponsored official programs, with mixed results. A recent World Bank review of its own experience concluded that such programs, which were too often driven by targets and plans, tended to select settlers based on the wrong criteria, often failed to do adequate soil and hydrological surveys and employed inappropriate mechanized land-clearing equipment. Furthermore, subsidies, either to individual families (the average cost per family was $10,000 in a sample of World Bank projects) or to all settlers though input subsidies or tax credits, has encouraged environmental damage. Spontaneous settlers seem to be better resource managers than those that are officially sponsored; evidence from countries such as Colombia, Indonesia, and Senegal indicates that because they assume costs and risks, they are more likely to ensure the economic viability of their actions. Nonetheless, settlement needs to be guided and serviced. Viable settlement areas need to be identified through better surveys than in the past, titles to land need to be provided to those settlers demonstrating a capacity for sound management, and research and extension is required on sustainable agricultural techniques. Land use zoning, which has often failed to achieve its objectives in the past, needs to be supplemented by service provision, titling, and penalties consistent with boundaries. Innovative approaches to such integrated land management, that allocate land to

settlers, loggers, and extractive reserves, while ensuring the rights of indigenous peoples, are underway in the Amazon, in West Africa, and Malaysia.

97. Areas that have particularly important ecological or habitat functions need to be given special protection. New approaches have emerged in recent years to supplement traditional reliance on guards and patrols. Integrated Conservation and Development Projects build on the principle that local communities must be integrally involved in devising and implementing protection. Buffer zones around some conservation areas have also been established in a number of cases. Through community-based intensive management of such areas, incomes are generated while accepted rules of access are established as the basis for limiting future encroachment. Nepal and Zimbabwe have been successful pioneers in these approaches.

98. Although logging directly accounts for only 20 percent of deforestation in developing countries, its impact is larger; by establishing access, it encourages farmers and ranchers to follow. Logging practices have been notoriously damaging in the past. A recent International Tropical Timber Organization review found that less than 1 percent of tropical logging is carried out under sustained yield management systems. Progress on expanding the application of sound management practices will require both improvements in government forest institutions and in incentive structures to loggers. Commercial logging needs to be contained through strict policies which limit concessions to areas where sustained management is possible and demonstrated. Priority should be given to the preservation of intact tropical forests and to reforestation of degraded areas. In most places, stumpage fees and area concession rents need to be increased to reflect the real value of trees. Felling leases or licenses and logging rights can be allocated by competitive bidding that is open to the private sector, local communities, and nongovernmental organizations.

<u>International environmental challenges</u>

99. Institutional mechanisms for dealing with international environmental problems, whether regional or global, are relatively less developed than those available for national-level decisionmaking. Nonetheless some important experience has built up in dealing with transnational resource and environmental issues. These include the Law of the Sea, various fishing and mining agreements, international river agreements (for example, the Indus), conventions on transporting hazardous wastes, and the Montreal Protocol on ozone depletion. Experience suggests that:

- agreements are most effective when based on reciprocity and strong national interests;

♦ international agreements often follow a process of catalytic unilateral or regional action;

♦ the lack of capacity to implement agreements has proved an important constraint on their effectiveness;

♦ financial and technical assistance can play an important role in increasing the effectiveness of agreements;

♦ trade barriers and sanctions may be an effective means of implementing or enforcing agreements in a small number of cases (CITES, Montreal Protocol). However, use of broader trade sanctions to coerce countries not joining or complying with agreements could be a costly and ineffective means of meeting global environmental objectives. The risks of destabilizing cooperative trade arrangements are likely to outweigh benefits of improved compliance and participation.

100. Global warming. Greenhouse gas accumulations pose both a scientific and a policy challenge to the international community. Knowledge of the problem is sufficient to discern a threat of climate change from increasing concentrations of these gases, but insufficient to predict how much or how fast it will occur, or the regional distribution of change.

101. A threefold strategy is suggested. First, as others have concluded, measures should be taken that are desirable even if global warming proves to be less of a problem than currently believed. Removing energy subsidies should be the starting point. Eastern Europe and the Soviet Union could make the biggest contribution here; their cumulative carbon emissions in the 1990s would be lower by 35 percent (8 percent of world total) if energy subsidies were all removed today. For other developing countries the calculations are that emission would be lowered by 11 percent (4 percent of the world total). Significant coal subsidies still exist in Europe. These should be removed for efficiency reasons, although would have modest impacts on carbon emissions, since they mainly subsidize the use of domestic coal rather than imported coal.

102. A number of other measures are also desirable, justified mainly on their benefits in other areas. Afforestation programs in watersheds and on farms (in the form of agro-forestry) often have good returns for reasons associated with watershed and soil protection and, in developing countries, for fuelwood. Taking their carbon sequestration function into account makes them more attractive. Fiscal measures also fit into this category. Energy taxation is often skewed in favor of the most carbon-intensive fuels, especially coal. Restructuring taxes and using higher energy taxes to replace more distortionary taxes can, especially in low energy taxation countries such as the United States,

have local environmental benefits and improve efficiency. Carbon taxes have been introduced in Finland and Sweden, and the European Community has recently endorsed a proposal for a carbon-cum-energy tax.

103. Second, research and development needs to be supported both on the magnitude of the problem and on potential solutions. Reducing uncertainty about potential costs and benefits is essential for designing an effective policy response, but will require a large effort. With regard to finding solutions, a high priority should be given to conservation and to renewable energy sources.

104. Third, pilot programs and innovative approaches to finding lasting solutions in developing countries need to be financed by industrial countries. Per capita net emissions of carbon in developing countries are only one-tenth those in industrial countries, and it is neither reasonable nor desirable for developing countries to divert scarce resources from development programs. A coordinated international effort is desirable to minimize duplication of effort, and ensure that initiatives are consistent with overall development policies. The Global Environment Facility (GEF) has broken new ground by making finance available for such activities. In supporting pilot and demonstration projects it seeks to identify the scope for widespread replication and cost reduction of technologies and practices that will reduce net greenhouse gas emissions. Its priorities include: slowing deforestation and encouraging afforestation; reducing emissions intensity of energy production through developing renewable sources such as biomass, solar, and microhydropower; improving end use efficiency; and reducing methane emissions from mining, gas transmission, and waste disposal.

105. While stronger international action is not warranted at present, it is clear that the pilot GEF program is only a modest beginning. In addition to increased support for the kinds of precautionary approach described above, any agreed approach should allow for the possibility that concerted action may be required in the future, should the balance of scientific evidence shift. Should concerted action be required, setting targets and allocating rights would be the two most important decisions. Targets should be set in terms of access to the global atmospheric carrying capacity over time; annual emissions goals would place unnecessary constraints. Allocating rights should be done on the basis of equity.

106. Biodiversity protection. Biological diversity is valued around the world for a number of reasons, and as such is a global public good. While uncertainties exist, there is substantial evidence that species and habitats are being lost rapidly, possibly at unprecedented rates. Capacity in the developing countries, both financial and institutional, to protect their biological diversity needs to be strengthened. Recognizing this common international concern for biological resources, there is a case for heightened international efforts to provide funding and technical assistance to the developing countries.

107. Effective conservation requires a twofold strategy by host governments and donors. First, complementarities between development and protection objectives should be exploited. Policies that encourage sound agriculture, off-farm employment, and promote sustainable logging will also discourage encroachment into natural habitats. Policies to encourage ecotourism, sustainable fishing, and genetic prospecting will be good for development and for biological diversity. Second, specific interventions for protection should be undertaken, with financial support from industrial countries. Such funding should not be regarded as aid, and should not be diverted from aid budgets.

108. There are sometimes trade-offs between development and conservation objectives. This occurs most obviously in protected areas, which require funding and where alternative income is foregone. But it also occurs where public investments (for example, dams) have to be stopped, or where agricultural practices or industrial activities are foregone in the name of species preservation. Such situations call for international support.

109. It is estimated that about 70 percent of the world's species reside in developing countries, while the great bulk of expenditures on protection is spent in industrial countries. As international funding expands, two concerns will need to be addressed. First, improved coordination among donors is required. Receiving countries currently spend too much time working with different donors and environmental groups. The Brazil Tropical Rainforest Fund, a joint initiative by Brazilian government and the G-7 with a first phase financing of \$250 million, is an effort to ensure a coordinated approach. Second, recurrent cost financing will be required for ongoing protection activities, where they do not pay for themselves. The pilot program launched under the GEF cannot easily handle costs of this nature, which highlights the need for a more durable funding arrangement.

An agenda for action

110. Policies and programs to accelerate environmentally-responsible development will not occur by themselves. They are costly in political and sometimes financial terms. It is important therefore to seize the current moment of opportunity to bring about real change.

111. The starting point should be policies that will promote rising incomes and better environmental stewardship. In the sense that these would provide economic benefits rather than costs these measures represent easy routes to environmental improvement. In another sense though they are very difficult ways to generate environmental improvements. Subsidies and other interferences with markets are typically supported by strong and entrenched interests who have a substantial stake in their preservation. Private beneficiaries of subsidies and other market interferences lobby for their maintenance and too often they

find a receptive audience in government officials who prefer to be in a position of allocating rents. Considerable progress has been made in many parts of the world in reducing these interferences, but there is a very long way to go. Positive environmental impacts of such reforms should be noted and publicized to add support to such initiatives. Such an environment assessment initiative could add support to the reform momentum as well as helping to ensure that any potentially adverse environmental impacts of the reform program can be countered by appropriate targeted environmental policies.

112. The second set of policies will involve financial costs. Environmental institutions will need to be strengthened, public investments in social and physical infrastructure and protection will need to increase, and the private sector will need to spend money on abatement. The Report makes indicative estimates of costs in a number of sectors. Some expenditures--park protection, waste treatment, and pollution abatement equipment--can be identified as specifically "environmental." But many, such as those associated with improved agricultural practices or population programs, are indistinguishable from development expenditures. Overall extra costs for local environmental concerns--many of which would add to employment and income growth--are estimated to be in the range of 3-4 percent of developing country gross outputs, which is roughly the same share allocated by industrial countries today. These requirements, which may rise to $100 billion per year by the end of the 1990s, would cover pollution control in energy and industry, and an expanded program of soil conservation, family planning, forest protection, research, and waste management.

113. While high in an absolute sense, these sums are modest in relation to the resources provided by economic growth. They are also much less than the potential for efficiency gains. Realistic gains from efficiency improvement in electricity production and in urban road transport, for example, would swamp pollution abatement costs in those sectors by factors of more than six to one.

Financing the program

114. The bulk of these investments will be paid by private and public enterprises responsible for the damage, and by the beneficiaries of improved environmental conditions. Governments will have to spend more on monitoring and enforcement, on research and on development of new technologies, on education, training and extension, and on protection of natural habitats.

115. International finance for local problems. Even though most investments will pay for themselves, finance will still be required for private and official sources. Access to commercial financial markets--coupled with expanded foreign investment--will thus be required to enable the technology transfer embodied in capital imports. The encouraging

restoration of commercial flows to countries like Chile, Mexico, and Venezuela over the past two years needs to be spread to a much wider range of countries. This will require more consistent policies on the part of borrowing countries and would be enabled by policies to raise savings rates--especially in the public sector. Debt relief is still required in a number of countries.

116. Local environmental challenges are worthy of additional development assistance. Such assistance should not be viewed as separate from the ongoing development needs, but rather should be embedded in official assistance programs. Development agencies and governments need to build upon the progress in curtailing potential <u>adverse</u> environmental effects of these programs to give additional emphasis as to how they can <u>improve</u> environmental conditions. The close link between environmental quality and poverty alleviation warrants additional concessional assistance, particularly in extension, credit, and education programs and in the provision of sanitation and water supply to squatter settlements and rural areas. The close link between the efficiency of resource use and sound environmental management warrants continued support for countries undertaking adjustment programs. A special international initiative is required in improving knowledge of environmental conditions and of sustainable practices. Our knowledge of soil degradation, for example, is totally inadequate--especially in Africa; our knowledge of forest ecosystems and of the potential for sustainable economic activity within tropical forests is no better.

117. <u>Financing global challenges.</u> Reflecting their much greater wealth, different global situation, and perhaps different tastes there are certain investments in developing countries that are not in the narrow interests of these countries but are seen as desirable by the industrialized world. It is clearly desirable to create institutions that make it possible for rich countries to compensate poor ones for undertaking these changes. Such institutions have the potential to make all countries better off if the global willingness to pay for policy changes exceeds their cost and if compensation arrangements are set appropriately. It is imperative that payments under such arrangements which represent compensation for costly local actions not be treated as development assistance or be financed from funds that would otherwise be available for development assistance. Such payments have much more the character of imports--payment for services rendered--and are very different from transfers to developing countries. Donors should compare the benefits of such programs, not with the benefits of their own domestic economic programs. As a global response to a global challenge, the governance of such funds should be representative of the interest of all people equally, and the allocation of such funds should be based upon effectiveness of raising global welfare, rather than upon meeting national needs.

The challenge ahead

118. The agenda for reform is a large one. Accepting the challenge to accelerate development in an environmentally-responsible manner will involve substantial shifts in policies and priorities--and will be costly. Failing to accept it will be more costly still.

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: March 26, 1991

TO: Distribution

FROM: Geoffrey Lamb, Chief, PRDPD

EXTENSION: 3-2544

SUBJECT: PRE Committee Agendas

RECEIVED
019
91 MAR 26 PM 3:59
OFFICE OF THE VICE PRESIDENT
SECTOR POLICY & RESEARCH

1. Attached is the agenda for the PRE Committee review of the Forestry Policy Discussion paper, as well as the agenda for the review of the draft WDR 1991.

2. The meeting will take place as scheduled on March 27 at 2:30 in Room D-1204. **Members may wish to note that the meeting is likely to last at least two hours.**

3. Following the meeting on March 27, the next meeting of the PRE Committee will be April 15 (Monday) at 2:30 p.m. at which time the committee will review the paper on the Use of Bank Lending Instruments.

Attachments

Distribution:

Messrs. Thalwitz (Chairman), G. El-Rifai, P. Isenman, W. Kaffenberger, A. Karaosmanoglu, R. Picciotto, V. Rajagopalan, I. Shihata, L. Summers, T. Thahane, W. Wapenhans, J. Wood

For Information:

Messrs./Mmes. Alisbah (PAAVP), Annez (FINSV), Barghouti (AGRPS), Bock (OPNSV), Burmester (SECGE), Churchill (IENDR), Colaco (PRSVP), de Tray (DECVP), Golan (EDIDR), Grilli (EAS), Hamilton (PHRDR), Husain (LACVP), Ingram (PRDDR), Jaycox (AFRVP), Kashiwaya (CFSVP), Khanna (EXC), Liebenthal (PRDRA), Linn (CECDR), Michalopoulos (PRDDR), Okonjo-Iweala (OPNSV), Petit (AGRDR), Pfeffermann (CEIED), Piddington (ENVDR), Pouliquen (INUDR), Rao (IECDR), Rowe (AGRPS), Sandstrom (EXC), Shakow (EXTDR), Sharma (AGRPS), Steer (DECVP), Thomas (CECTP), Wyss (CODDR)

CBryant:cb

THE WORLD BANK/IFC/MIGA
OFFICE MEMORANDUM

DATE: March 25, 1991 RECEIVED

TO: Mr. Geoffrey Lamb, Chief, PRDPD 91 MAR 25 PM 3:50

FROM: Wafik Grais, Economic Adviser, EMNVP

EXTENSION: 32283

SUBJECT: WDR 91: Agenda for the PRE Committee Meeting

1. "Meeting the Challenge of Development" has been, remains and will continue to be a central issue in human history. The report takes stock of the variety of lessons learned and provides valuable information and insights on what has succeeded and may be used to face the decade of the nineties and enter into the twenty first century. The treatment of the issues is comprehensive, reflecting the multidimensional nature of the development process and its complexity. In so doing, the report naturally deals with questions where the profession can provide hard answers and with others where our knowledge remains tentative. It candidly conveys the firmness and softness of current thinking on the various issues.

2. This WDR is likely to be perceived as the compendium of the Bank's current views on the development process and on the guidelines it follows in defining its actions in support of client countries. As such, its content will influence the policy and operational dialogue with borrowers and the acceptability of country programs. But it may affect also the way the international community, and particularly Part One countries, see the future role of the Bank and the support it could obtain. The choice and clarity of the messages conveyed is critical in this respect.

3. The committee may wish to organize its discussions around the following themes : i) the balance between the roles of markets and government; ii) the priorities in promoting investment in people; iii) the notion of governance to be emphasized; iv) the balance between policies and resource availability in inducing growth and iv) the optimism about the enabling environment for development.

4. Government and Markets. One important message of the report is the explicit recognition of the role of Government in supporting markets and the private sector in their leading role in development. Interestingly and correctly it is pointed out that: "Market distortions and government interventions are not synonymous", and that market-friendly strategies may allow for wide variations in the degree of intervention. However the identification of "the government's capability in intervening effectively where markets prove inadequate" does not convey clearly to the reader the scope of, and limits to, the role the authors see for the government. Elaborations in subsequent chapters do not clarify the point. One way of looking at the government's role is that it is supposed to set the rules for private sector activity, to ensure the respect of these

rules and foster the participation of the disadvantaged who have difficulty "playing the game". The committee may wish to seek clarification on the relative roles of private activity, markets and the Government, the report is proposing.

5. Priorities in Investing in People. Macroeconomic stability is correctly stressed in chapter 6 as an essential condition for the success of structural reforms and in allowing them to bear their fruits as it builds the confidence of private operators. Fiscal balance and budget deficit sustainability are at the core of macroeconomic stability but pose the question of how much the state can afford to invest, including in social infrastructure (that is people) and where it should invest. Primary versus higher level education, preventive versus curative care, and female literacy development are all important issues, that may be supported by the Government, the private sectors or NGOs. The committee may wish to consider whether priorities in investments in social infrastructure are sufficiently outlined as well as whether the relative roles of the state, and other institutions in this respect, are dealt with adequately.

6. The notion of Governance. Almost all chapters of the report have some reference to the issue, while chapter 7 elaborates extensively on the question. Two dimensions deserve to be kept separate however, at least conceptually: i) the nature of the political regime (e.g. freedom, civil liberties) including the political process through which decisions are taken (participatory or not) and ii) the nature of the rules and institutions governing economic behavior and resource allocation and mobilization. The report points out that there is no clear evidence connecting what could be called "political" governance and economic performance. On the other hand there is firmer ground to state that improved legislation and regulations, as well as institutional arrangements governing economic activity, can enhance productivity growth. The committee may wish to consider the opportunity for the WDR to discuss so prominently the nature of political regimes of member countries and provide some guidance to the authors on the issue.

7. Correct Policies and Resource Availability. The report correctly emphasizes the importance of non-distorting and facilitating policies in promoting productivity, growth and welfare. Resources and investments, to reap the benefits of the appropriate incentive frameworks being put in place, are critical if any concrete positive results are to be shown. It is unclear whether the developing world will be able to receive significant transfers in the coming few years to allow it to allocate resources efficiently and grow. It may be able to allocate efficiently what it may not have. The committee may wish to consider the relative importance the report attaches to resource mobilization and net transfers to the developing world versus the emphasis on enabling policies.

8. Optimism on the Enabling Environment for Growth. Para. 52 of the overview points out "the opportunities for rapid development

are greater today than at any time in history" and lists three of them : international links, basic knowhow and appreciation by policy makers of development options. These opportunities may be there though as the report acknowledges uncertainties do exist. However the claims on world savings, the likely increases in real interest rates, the possible weakening of important financial institutions in the part one countries, the political instability that may emerge with the possible development of local powers are all elements of concern. In addition the Fifties and Sixties were periods of stability that saw tremendous productivity growth. The committee may wish to consider whether such optimism is warranted and whether it does not run the risk of inducing some relaxation in adjustment efforts.

Distribution:

Messrs. Thalwitz (Chairman), G. El-Rifai, P. Isenman, W. Kaffenberger, A. Karaosmanoglu, R. Picciotto, V. Rajagopalan, I. Shihata, L. Summers, T. Thahane, W. Wapenhans, J. Wood

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WGrais:wg

A word of caution
Social costs of development - crime - drugs, family disruptions ?

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Crimes, drugs etc
- Social fabric being destroyed by development

World Development Report 1991

Meeting the Challenge of Development

Overview

1. Rapid, sustained development is possible--in a wide variety of settings, both natural and cultural. The past four decades have seen solid economic growth, and impressive improvements in people's lives in the developing world. Development has naturally been much more possible under a hospitable global economy than a hostile one. But many countries have made enormous progress in tough circumstances--by managing to get the most returns from available resources. Such progress, however, has been far from uniform and as a result, substantial development is yet to touch millions of people.

2. The challenge of development is to achieve and sustain rapid growth, to extend its fruits to people everywhere, to improve people's education and health, to reduce poverty, and to do all this while enhancing individual freedom and preserving the earth's environment. Meeting this challenge requires increased international cooperation and worldwide openness in trade, technology, and resource flows. And it requires domestic effort. Most importantly, countries need to establish conditions that will unleash individual capability and entrepreneurship, induce technological change, and increase the productivity of human and physical resources--or the <u>quality</u> of economic activities.

3. The record of development provides valuable lessons on approaches to guide this effort. Drawing on this accumulating evidence, this Report identifies two essential building blocks of what it labels a market-friendly approach. One building block is the country's market institutions that support economic activities. Experience shows that it pays to move toward greater competition and openness--away from prohibitions, permits, and prior licenses. The second building block is the government's capability in intervening effectively where markets prove inadequate. Experience shows that it pays for governments to ensure high-quality investments in the "developmental infrastructure" such as in education, health, the environment, transport, communication, and information.

4. The appropriate blend of the roles of markets and governments is a thread that runs through the specific actions discussed in the Report. The effectiveness of domestic efforts is improved by global actions, two of which are: establishing a more hospitable environment for resource flows; and reversing quantitative restrictions on trade. Actions needed on the domestic front are: investing in people's education, health, nutrition, and family planning; establishing competitive product and factor markets; fostering global links in technology, trade, and resource flows; ensuring resource mobilization, fiscal discipline, and macroeconomic sustainability. In all this, the

roles of governments and markets often need to be reoriented and strengthened.

5. Enhancing the role of markets or achieving better government interventions has provided benefits to countries. But, as shown throughout the Report, it is the complementarity between each dimension that has distinguished the outstanding successes. The above-mentioned actions, involving markets and governments, reinforce each other. To take one example, the economy wide benefits of investing in physical and human capital (by the government or the private sector) are especially large when accompanied by reforms to enhance external and domestic competition. A substantial improvement in the policy environment is estimated to increase the rate of return to investing in projects by 5-10 percentage points or by 50-100 percent on average. That increase can translate into an extra 1-2 percentage points of a country's annual income growth.

Technology, productivity, and policy

6. The technological progress of this century has enabled vast improvements in the living conditions--in the now-industrial countries and in the developing countries (Chapter 1). And with time, the pace of development has hastened dramatically (Box 1). Global life expectancy has more than doubled during the twentieth century, to an estimated sixty-five years. On social indicators,

some low- and middle-income countries are fast approaching the industrial countries (Chile, China, Jamaica, Sri Lanka, for example). Global per capita income has tripled since the Second World War--remarkable, as total income increased 500 percent. But income differences between industrial and developing countries have not narrowed as in some of the social indicators.

Development's uneven results

7. The difference in per capita income in East Asia relative to industrial countries has narrowed in the past forty years. But it has widened in other developing regions, most notably in Sub-Saharan Africa and Latin America in the 1980s. Country differences have been large: Hong Kong, Japan, Korea, and Singapore vastly increased their per capita real incomes since 1960 but Argentina, Jamaica, Nigeria, and Peru made little progress, and Ghana and Zambia suffered declines. A staggering 1 billion, a fifth of the world total, are estimated to be living on less than $370 a year. Nearly half of them live in South Asia which accounts for 30 percent of the world's population; Sub-Saharan Africa contains a smaller, but highly disproportionate, share of the poor (WDR 1990).

Box 1 Variations in economic and social development

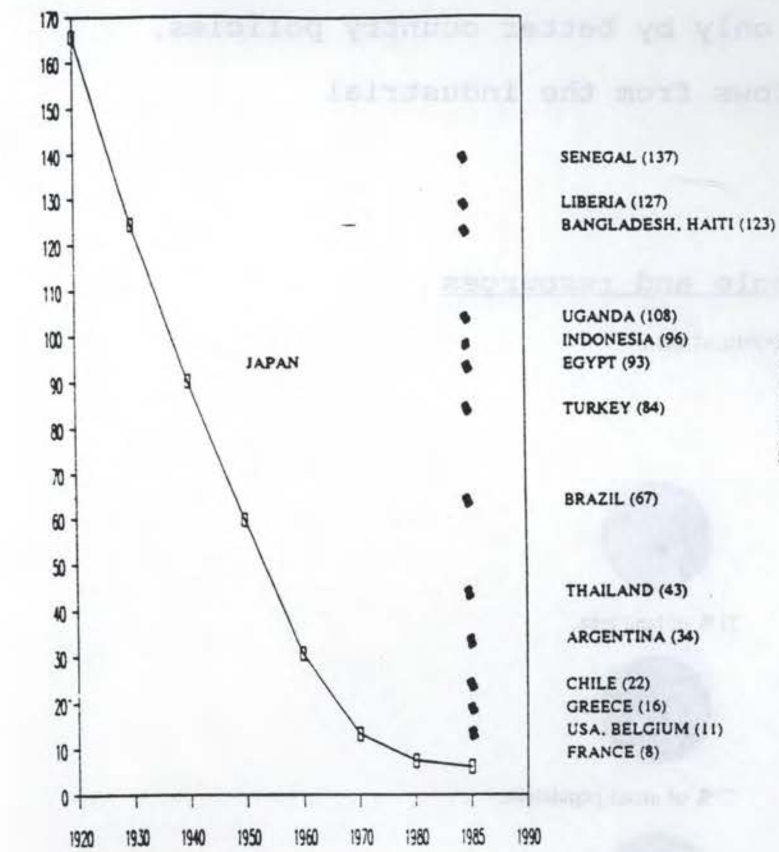
Progress has accelerated over time. It took Britain some sixty years to double its income per person, starting in the 1780s. The United States took about fifty years to do the same, beginning in 1839. Japan did the same in about thirty-five years, starting in the 1880s. And Brazil, China, Indonesia, Korea, Norway, and Turkey took less than twenty-five years after the Second World War.

Differences in life expectancy and infant mortality have been narrowing for most regions and countries, mainly because of the improvements in nutrition, the spread of medical technology, and the natural limit on achievement for both indicators. But countries at the low end of achievement in infant mortality today have outcomes that are comparable only with those at the beginning of the century in Japan, one of today's best achiever in this respect (see Box figure 1). The differences in income per capita and educational attainment appear much larger than in health indicators. Countries at the low end of per capita income resemble the situation, before the nineteenth century, of one of today's best achiever, the United States.

Box figure 1 Wide disparities across countries

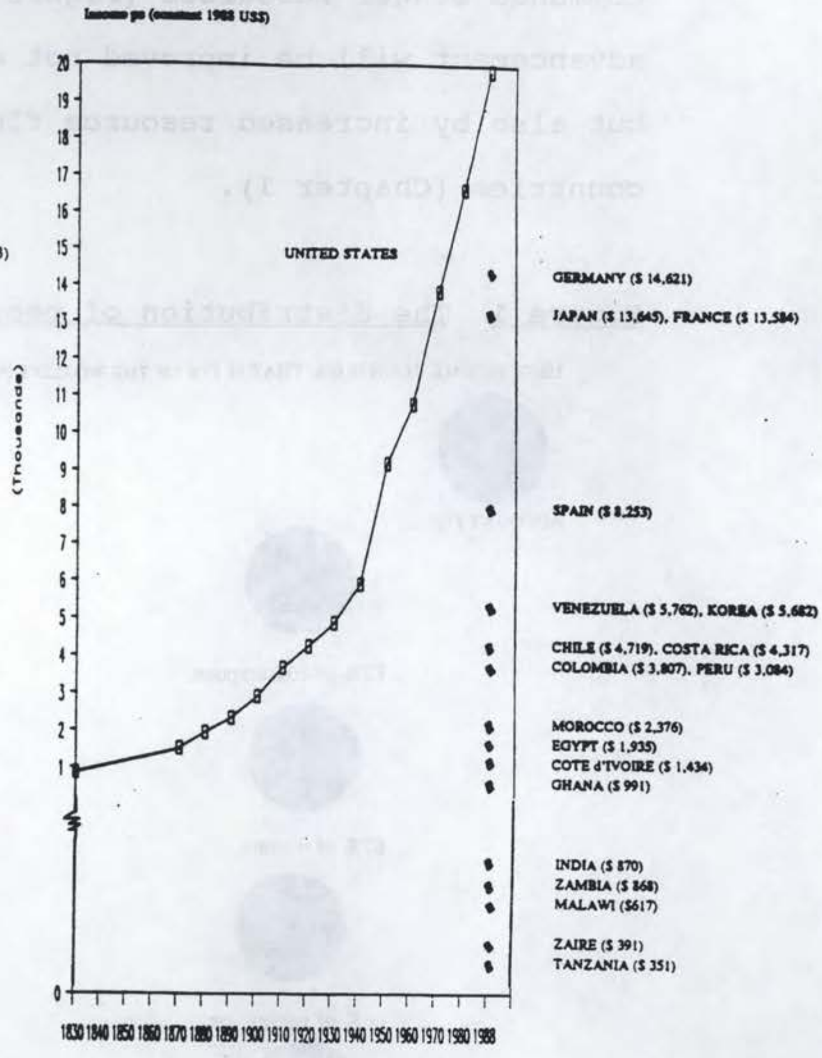
INFANT MORTALITY: JAPAN vs OTHER COUNTRIES

INFANT DEATHS PER 1000 LIVE BIRTHS



Source: World Bank data.

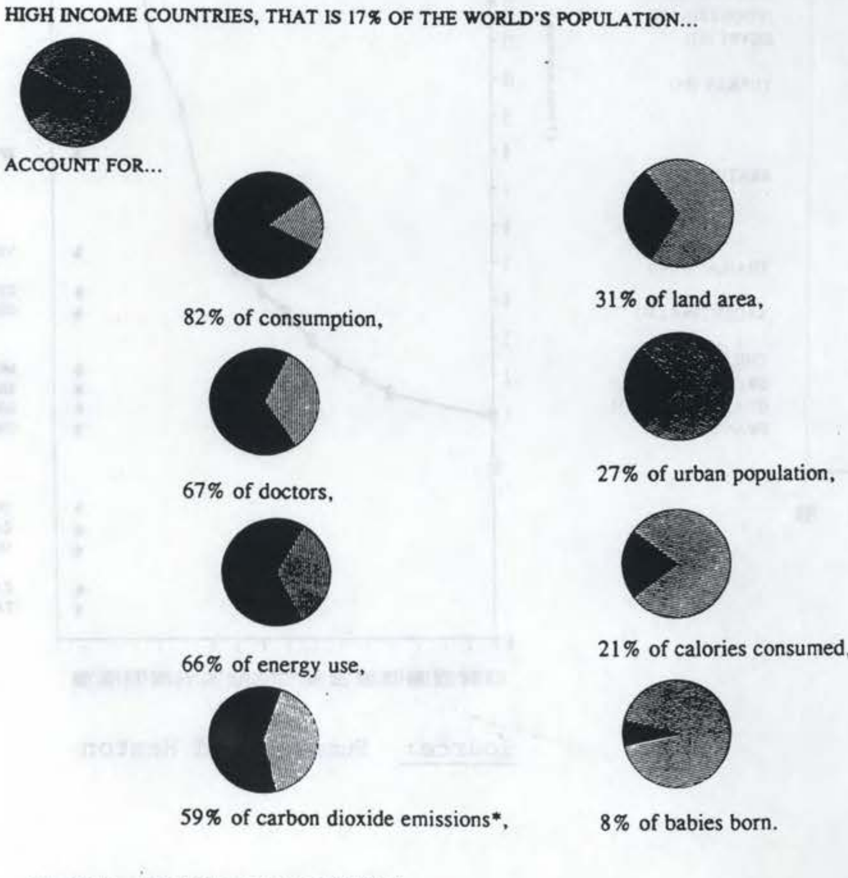
PER CAPITA INCOME OF UNITED STATES vs OTHER COUNTRIES



Source: Summers and Heston

8. **Poverty is concentrated in the developing world, but development is a global problem.** Global integration in trade, finance, and labor markets has been increasing rapidly. With this has come greater linkages that tie industrial country policy and performance to the prospects for development. But despite increasing integration, the resource imbalances remain dramatic. While four-fifths of the world's people live in developing countries--a proportion that is rising--the developing world commands meager resources (Figure 1). The prospects for advancement will be improved not only by better country policies, but also by increased resource flows from the industrial countries (Chapter 1).

Figure 1 The distribution of people and resources



The USSR and East Germany are not included.
*This refers to industrial emissions.

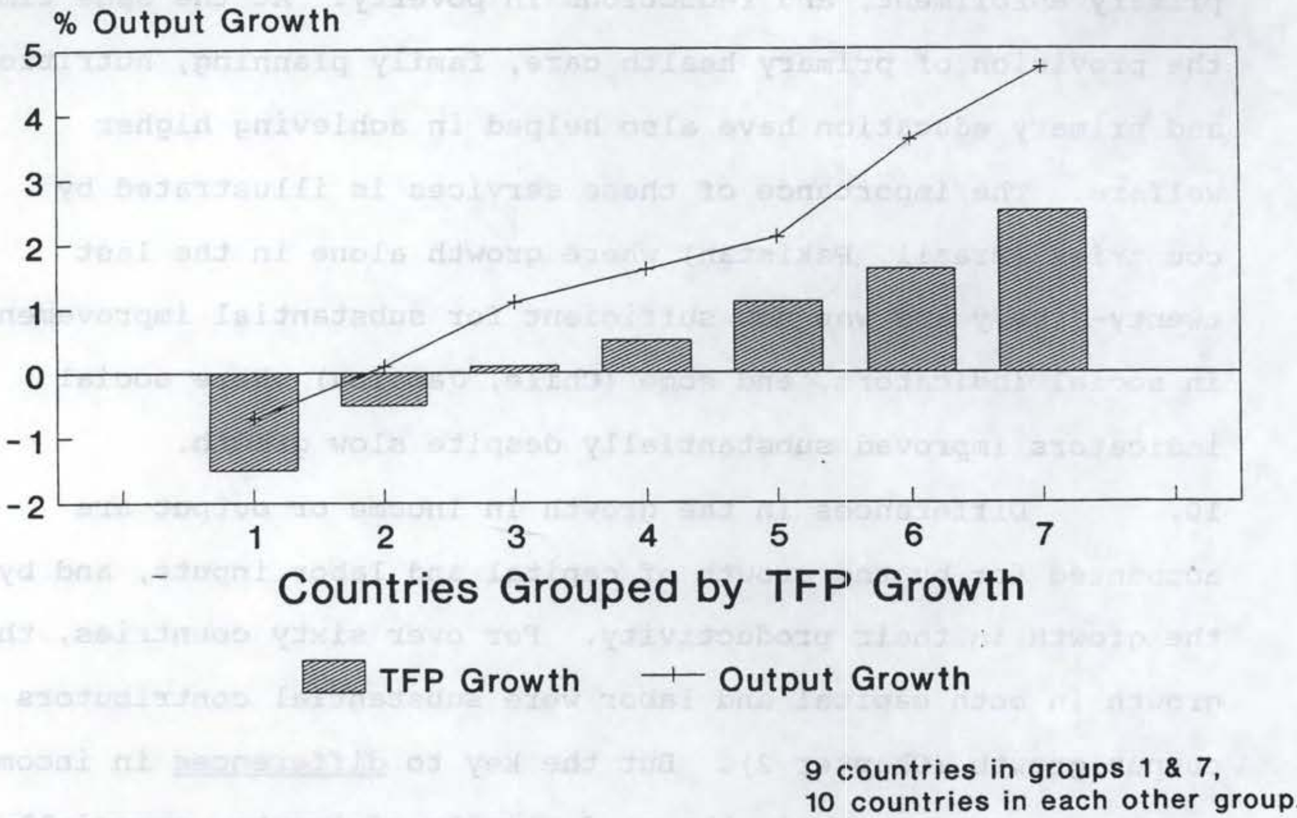
Sources of country performance

9. Growth in income has been strongly and positively linked to improvements in infant mortality, life expectancy, primary enrollment, and reductions in poverty. At the same time, the provision of primary health care, family planning, nutrition, and primary education have also helped in achieving higher welfare. The importance of these services is illustrated by countries (Brazil, Pakistan) where growth alone in the last twenty-five years was not sufficient for substantial improvements in social indicators, and some (Chile, Jamaica) where social indicators improved substantially despite slow growth.

10. Differences in the growth in income or output are accounted for by the growth of capital and labor inputs, and by the growth in their productivity. For over sixty countries, the growth in both capital and labor were substantial contributors to output growth (Chapter 2). But the key to differences in income growth was the growth in the productivity of inputs, especially in distinguishing cases of high output growth (Figure 2). Productivity growth, which reflects technological progress, is the central force of development. Technological progress is influenced by the impacts of history, socio-ethnic conditions, internal peace, and political stability, but it is diffused mainly through investments in physical and human capital and through trade. The evidence here confirms strong, positive associations with the quality of investments and policies, in

particular with (1) advancement in education and skills, and (2) reductions of market distortions.

Figure 2 Total factor productivity growth and per capita output growth, 1960-87



11. Market distortions and government interventions are not synonymous. While government intervention shows a generally negative relation to economic growth, there are important exceptions. For a group of thirty economies with comparable data, two measures of government intervention for 1975-87 were considered: trade restriction; and the share of total government spending in GDP (WDR 1991 data base). Government intervention, according to these measures, has varied greatly--ranging in the area of trade from low in Hong Kong and Chile, to moderate in

Costa Rica, Mauritius, and Thailand, and to high in Brazil, Pakistan, Zimbabwe, and many others. Overall, far more economies have intervened heavily than moderately or lightly. And growth performance suggests two conclusions. One, the percentage of successful countries is higher under light interventions than under moderate or high interventions. Two, within the group of outstanding successes, a higher percentage intervened moderately (see para. 29).

12. Country experience also suggests the positive effect of market reforms, in Chile, China, Ghana, Korea, Mexico, Morocco, Turkey during the 1980s (World Bank 1989, 1990). Some controlled economies are estimated to have grown rapidly without such reforms, for example the Soviet Union in different time periods. But such growth was especially expensive in human costs. And in these countries and elsewhere with heavy intervention at different times (Brazil, Mexico, Nigeria, Peru), rapid growth could not be sustained without reforms, as the drag of protection and public sector inefficiencies surfaced sooner or later.

<u>The evolution in development thinking</u>

13. Climate, culture, and natural resources were once important keys to development. Agriculture was a prime candidate for taxation to fund industry in many countries. The dominant thinking after the Great Depression and through the 1960s advocated import-substitution by fostering infant industries. Supported by the external donors, the dominant paradigm assumed

& this because we give the same advice to everyone.

the ability of governments to direct and manage development.

14. The past forty years have revealed that the quality of investments, institutions, and policies is crucial for sustainable development (Behrman 1990, Chenery and Srinivasan 1989, Ranis and Schultz 1988). Investing in people, if done right, is the foundation for development. A heavy tax on agriculture is almost always a tax on development. Economic isolation is costly. Obstructing competition and distorting market signals can be counterproductive. Freedom and liberty--goals in their own right--are consistent with economic growth, and they are positively associated with other welfare attributes. Environmental protection is essential for sustainable development.

15. But price reforms in themselves have not been sufficient for rapid development in the several reform episodes examined (World Bank 1988, 1989). Development requires much more than letting prices reflect true economic costs. It requires sound public investments and the response of private investments to price reforms: for example, liberalizing trade and investing in infrastructure together provide substantial expansion in trade, either alone may not. Development also requires more than merely assigning to governments the fields where private action is less effective. It requires effective public institutions, which are a nexus of policies and cultural, political, historical, and socioeconomic realities. It also requires steady

improvements in the respect for property rights, the effectiveness of legal systems, and the probity and efficiency of civil services.

16. These emerging perspectives--on a greater reliance on markets and the emphasis on the essential government role--do not represent a linear progression from darkness to light. Each success and each failure has provided new insights, not immutable truths. And many unknowns remain--about the appropriate mixes of the market and the government, and about reform paths. For example, what government actions best support market reforms, especially under differing institutional capabilities? Why are reforms adopted and better implemented in some countries, but delayed or reversed in others? Is a shock treatment or gradualism the best path to reform? This Report is about what we have learned--and what we still need to learn.

17. Most World Development Reports, starting in 1978, considered a major issue in development such as human development, agriculture, and public finance. The questions of the present Report are old questions: "How can developing countries achieve growth with equity and sustained human development? Will the international environment complement their efforts?" (WDR 1981). Many of the lessons were also reflected in previous WDRs: for example, the key contribution of human capital; the importance of incentives; the need for macroeconomic stability. Building on a large body of evidence, this Report

underscores the contribution of technological progress and productivity growth. It considers the appropriate combination of markets and governments. And it shows the complementarity or synergy (as well as conflicts) between key measures.

The building blocks of a market-friendly approach

18. The various chapters contain findings on the two building blocks in effective strategies: market institutions; and the government's role.

An enhanced role for market institutions

19. With the economy, polity, and society open and competitive, individuals can pursue their diverse interests, own and transact property, acquire new ideas and knowledge, and utilize their entrepreneurial talents. For this, there is good precedent.

20. Global competition and technology. The historical expansion of worldwide flows of trade, resources, and technology was associated with periods of rapid growth. Openness to external trade and investment has encouraged domestic producers to adopt cost reducing technologies and to introduce new and better products, as shown by the positive effect of greater import-competition on the behavior of firms in Japan, Korea, and Turkey, and of greater export competition in Brazil. Technological progress was triggered through the technology flows

under foreign investment, technical assistance, licensing patented processes; through the foreign exposure and contacts from exporting; and the embodied technologies in the import of capital, equipment, and intermediate inputs. Educating and training managers and technicians who use the new technologies have added to these gains.

21. Domestic competition and technology. Domestic competition was essential to innovation and technology diffusion and to the global competitive advantage of successful industries in six European countries, Japan, Korea, Singapore, and the United States (Porter 1989). Licensing restrictions to entry, bankruptcy or labor laws regulating exit, and price controls have hurt technological change. Examples of unhelpful restrictions include: Argentina's policy of favoring incumbents for industrial investment; exit barriers in many countries in Africa, in China, and in Eastern Europe; sheltered national markets for some of Europe's computer industry; government control of India's fertilizer industry and Indonesia's food and textile production; Pakistan's capacity licensing in the cotton industry. Many of these internal constraints coexist with external trade restrictions, magnifying the negative effects on technological progress. Regulatory reforms have paid off as illustrated by the recent experiences of Ghana, India, Indonesia, and many others.

22. Government balances and competitiveness. The extent

and quality of government activities themselves affect productivity and competitiveness. Government investment is found to complement private investment up to a point, according to aggregate and project-level evidence. But beyond a threshold, the public sector has preempted resources that the private sector can use more productively. More generally, large fiscal deficits have usually fueled monetary expansion, inflation, currency overvaluation, and an erosion of competitiveness. High rates of inflation, as in Argentina, Brazil, and until recently, Israel, have also led to real economic costs, including the nonproductive expansion of the financial system. Fiscal instability is often triggered by positive or negative shocks originating externally or internally. The responses to the shocks, however, have varied--with the excessive spending in response to temporary upswings as in Cote d'Ivoire, Kenya, Mexico, Nigeria, and others. Maintaining macroeconomic balances have helped performance in Botswana, Chile, Colombia, Indonesia, Korea, Malaysia, Mauritius, and Thailand.

23. <u>Government excess, checks, and balances.</u> Autocratic governments as well as participatory governments have brought about fiscal and other forms of excesses. But accountability, transparency, economic and political checks and balances have helped to minimize prolonged excesses. Political freedom and civil liberty are part of the meaning of development, and hence goals in their own right. Country studies do not establish

conclusively whether these features are causes or outcomes of economic growth. But the cross-country analysis here convincingly rejects the idea that rapid economic growth requires the sacrifice of freedom and liberty. Furthermore, freedom and liberty are positively associated with improvements in the health and educational status. The free press in India has been credited with the government's quick response to incipient famines since independence, and the absence of such a press blamed, in part, for the famine in China during 1958-61 (Sen 1983). The flow of information induced the tide of reform flooding Eastern Europe. Transparent, accountable, and flexible institutions have brought gains, while their absence in predatory states has perpetuated corruption and waste and made development assistance counterproductive.

An improved role of government interventions

24. The enhanced role of markets is also related to a strengthening of the government's function in providing law and order, justice, enforcement of contracts, ensuring property rights, and establishing the financial regulatory and macroeconomic frameworks. In addition, a variety of interventions might be justified (see Box 2).

Box 2 Market-friendly government intervention

Many governments have intervened in the economy, but success has depended on three features:

1. Intervene only when intervention is demonstrably superior to the market, as in providing some forms of education, building infrastructure,

assisting the poor, implementing population programs, or protecting the environment. The obverse: do not intervene when the market is clearly superior, for example, do not protect the domestic production of a commodity that can be imported at a lower cost and whose local production offers few spillover benefits.

2. Continually put interventions to the market test. Determining whether to continue, modify, or abandon an intervention--be it a tax, subsidy, or public investment--hinges on how it conforms to market signals. Korea withdrew its support to the heavy chemicals industry when the market showed the earlier decision to promote the industry to be a mistake.

3. Make interventions transparent and nondiscretionary. Just as transactions in most competitive markets are at arms' length, market-friendly interventions are as publicly transparent, rule-based, and nondiscretionary (tariffs as opposed to quantitative restrictions, for example).

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25. Income distribution. The state also has the functions of meeting distributive goals, of building consensus, and of holding the society together. In all this, approaches that do not fundamentally distort markets, or lead to the capture of the state by special interests, have performed better. These approaches include relatively nondistortionary actions: investments in education, and health (as in Scandinavia); improving the functioning of labor markets and enhancing labor mobility (as in Indonesia and Malaysia); strengthening rural infrastructure (as in Bangladesh, Bolivia, India, and Sri Lanka); and improving the targeting of nutrition and poverty programs, and public expenditures in general. Consumption subsidies for basic food, targeted to the poor, may be needed because market reforms only respond to the existing asset distribution, and many countries have large classes of people without much material assets (Dasgupta forthcoming). Land reform can also be

beneficial, as evidenced in the successful experience in China, Japan, Korea, and Taiwan, China, although its feasibility in many other countries has been questioned.

26. Support of human development. Economic growth and well-targeted public expenditures have contributed to human development. The provision of primary health care, family planning, nutrition, and primary education to the poor are found to be necessary complements to rapid growth (Indonesia, Malaysia). Household studies show the positive effect on social development of expenditures that reach the people. But they also reveal the inadequacies of such programs--poorly prepared teachers, low utilization of public health facilities, shortage of essential supplies. Improving the efficiency of spending includes reducing the large subsidies for higher education (for example, in Bangladesh, Chile, Costa Rica, the Dominican Republic, India, Nepal, Papua New Guinea, Uruguay); and shifting the relatively high spending from curative (as in Brazil, Cote d'Ivoire) to primary care facilities.

27. Population growth has typically declined with the growth of economies and the move to cities. But investments in education, health, and family planning have still been necessary to influence the pace of population growth in some countries. Effective family planning programs have informed people of the private and social costs of high fertility, encouraged couples to reduce family size, and helped to meet the demand for

contraceptives. Such programs worked best in countries that have also instituted policies to improve education for women and increase their opportunities for work in the modern sector--and where growth and urbanization were at work anyway.

28. Intervention for environmental protection. Some of the largest environmental problems (air and water pollution) arise from the resource use, production, and consumption modes of the industrial countries. But the developing world, too, is threatened by environmental degradation including depletion of forests, soil, village ponds and pastures, as well as air and water pollution. Appropriate policy responses have included: proper pricing of resources and clearer property rights and resource ownership; taxes and controls on the environmental ill effects, and investments in production alternatives. Country experience suggests that in some instances, policies for growth and for environmental protection are complementary; in others, environmental actions involve a real resource cost, at least in the short term (Pearce 1990). Finding least cost means for confronting environment ills directly is a high priority.

29. Intervention in production? The government is, in principle, suited for ensuring the provision of public goods--legal and property rights, infrastructure, communication, research, basic education, information, and know-how. The very high returns to research and development in agriculture, even adjusting for risk (for example, maize in Peru, rubber in

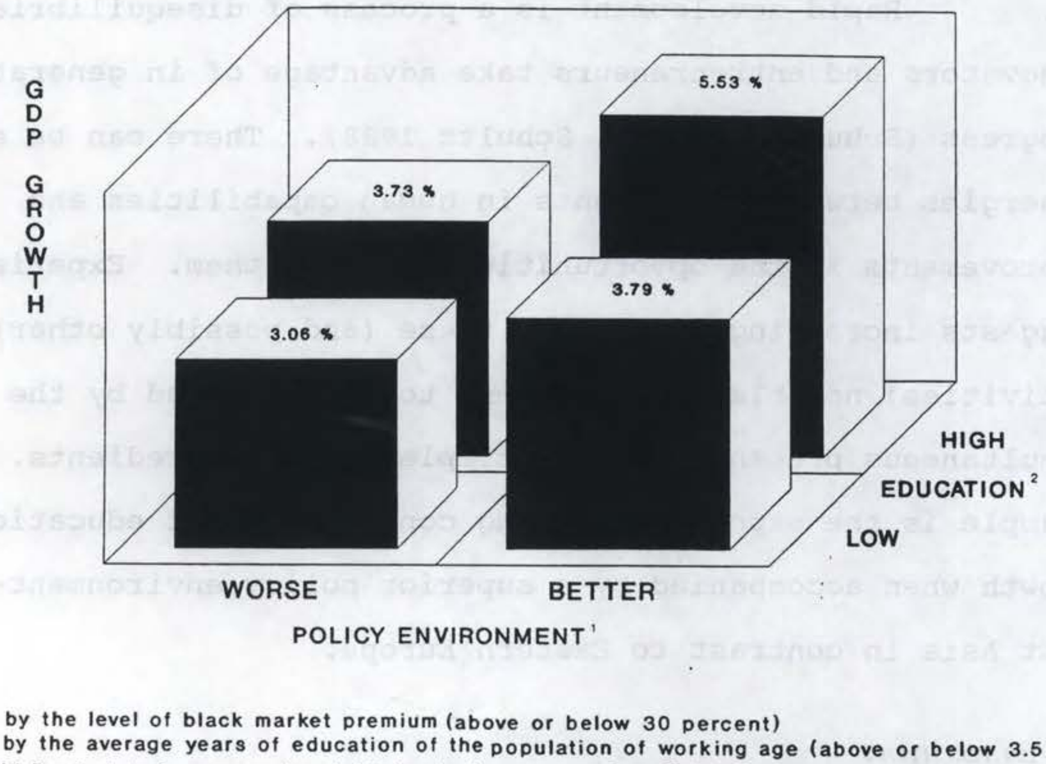
Malaysia, wheat in Chile and Pakistan, and cotton in Brazil) suggest the rationale for public involvement. Successful East Asian economies, however, went further than such support, by providing infant industry protection and credit subsidies. Their relative success depended on (1) the initial costs of protection being offset by learning-by-doing within a reasonable time period and (2) any discrimination of exports (as a result of protection) being offset. Protection and subsidies elsewhere were guided more by political criteria (in that the protection could not have been expected to be viable ever), yielding poor economic results in most cases. Prospects for replicating the East Asian experience are especially tougher today in the changed global environment.

Complementarity between policies and investments

30. Rapid development is a process of disequilibria which innovators and entrepreneurs take advantage of in generating progress (Schumpeter 1947, Schultz 1988). There can be strong synergies between investments in human capabilities and improvements in the opportunities to apply them. Experience suggests increasing returns to these (and possibly other) activities; notable success seems to be explained by the simultaneous presence of such complementary ingredients. One example is the especially strong contribution of education to growth when accompanied by a superior policy environment--as in East Asia in contrast to Eastern Europe.

31. Regression analysis suggests an interaction between more education and better policies. Thus, growth of GDP (and of productivity) is usually higher when both education is higher and the productive environment is better than with each one at a time (Figure 3 provides a bivariate illustration). Similarly, growth of GDP (and of productivity) is higher when both investment is higher and the policy environment is better. In the area of social progress, more education improves the effectiveness of health expenditures in reducing infant mortality. Female education is found to be especially significant, as it increases the effect of better availability of medicines, clean water and sanitation on reducing infant mortality.

Figure 3 Interaction between the policy environment and education in affecting growth, 1965-87

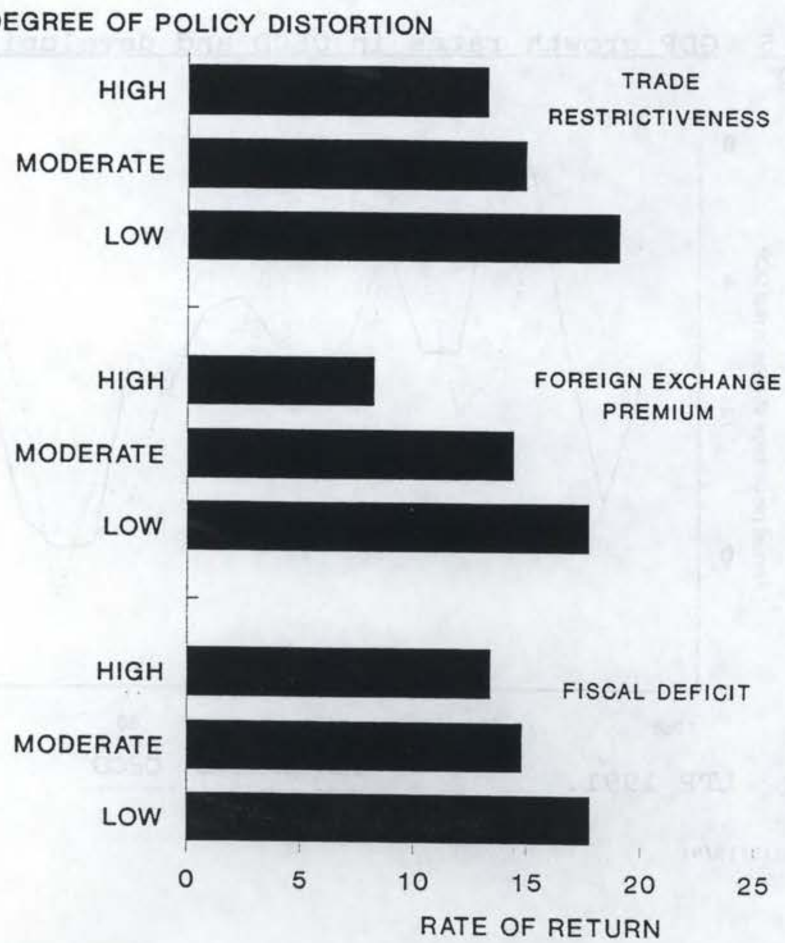


1. Measured by the level of black market premium (above or below 30 percent)
2 Measured by the average years of education of the population of working age (above or below 3.5 years)
Source: World Bank data for a sample of 60 developing economies; Pick's currency yearbook.

32. Going from a high-distortion environment to a low-distortion one increases sharply the rate of return to World Bank-financed investment projects (Figure 4). The returns are also systematically higher where institutional reforms are successfully implemented and where public investments, such as those for infrastructure, are in place (not shown). More education also boosts the contribution of an improved policy environment. The implications are clear for government and donor policies alike. Policy reforms and investments are the two blades of a pair of scissors: each makes the other effective.

Figure 4

How Rate of Return to Investment Varies Across Policy Regimes

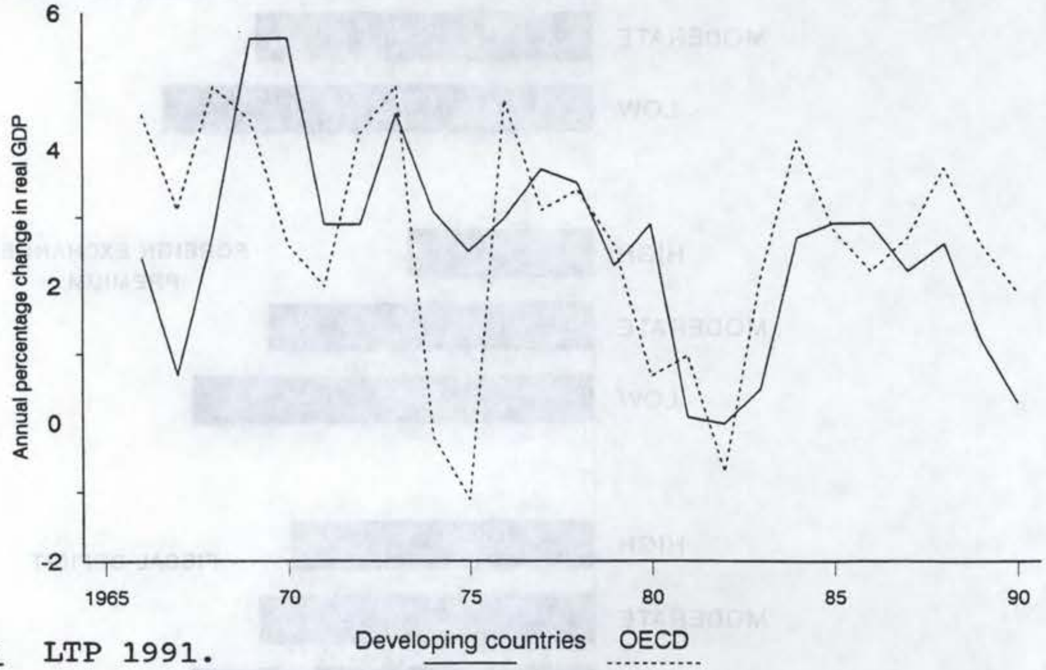


Source: World Bank data.

What the international community can do for rapid development

33. Global changes in trade, finance, technology, social justice, security, energy use, and the environment have an impact on the pace of development. The growth of industrial countries seems to affect the growth in developing countries as suggested in Figure 5. A 1 percent increase in the OECD growth rate is estimated to help raise developing country exports by 2 percent (McCarthy et al. 1987). Some external conditions are mainly the result of market forces (fluctuations in commodity prices), but others are influenced by policies (protection by large trading partners), as shown in Chapters 1, 5, and 8.

Figure 5 GDP growth rates in OECD and developing countries, 1965-90



Source: LTP 1991.

Stepping up capital flows and foreign aid

34. In contrast to the previous decades, the 1980s witnessed a decline in the overall net flow of resources to developing countries (World Bank 1990). Net official flows and foreign direct investment generally increased during the 1980s, but net private flows virtually disappeared. At the end of the decade (1989), overall net financial transfers to the developing countries as a group was negative. Hurt most by the tight inflow of resources were the severely indebted countries. The results of the Brady Initiative, the easing of terms on Paris Club rescheduling, other programs of debt relief and restructuring, and some countries' strong export performance have been contributing to recent improvements in the debt indicators.

35. Despite progress, the debt crisis continues to threaten development. Factors that could sustain and augment progress include: the implementation of strong, credible adjustment programs in countries; expanded country coverage of the commercial debt and debt service reduction; more concessional rescheduling for the poorest debtor countries; and a reduction of the stock of debt owed to official bilateral sources. Private lending is likely to grow only modestly--as commercial banks rebuild capital, among other reasons. Yet, additional private financing could take the form of repatriation of assets by the further development of instruments such as project and trade-linked finance, direct foreign investment; joint ventures, and

debt and equity issues abroad. Official flows are likely to grow somewhat faster than the industrial countries' income, with multilateral institutions remaining as the key link between international capital markets and many developing countries. Multilateral lending is expected to grow rapidly in the first half of the 1990s--World Bank disbursements reflecting the 1989 capital increase.

36. Improving availability and lowering the high cost of external finance will assist development, but so will an improvement in the efficiency of its use. The effectiveness of external aid has depended both on donors' and recipients' policies. Among factors reducing the cost of bilateral aid to recipients, progress was made in the 1980s in increasing the concessionality of aid, in improving aid coordination, but not much in untying aid (World Bank 1991). Aid effectiveness has varied according to country policies. External capital clearly helped the reconstruction from disasters (Bangladesh, Mali). Or it was productive because it meshed with an effective program of resource use (Colombia, Indonesia, Korea, Thailand). But it was of no lasting help in some countries because of poor domestic policies (Guyana, Tanzania, Zaire). Where aid is not solely driven by political factors, and it assists in improving the policy environment, good economic results follow (aid effectiveness in Korea in the 1960s in contrast to the 1950s). This Report's findings support strongly the need to ensure both

policy reform and investments--to link all lending to good policies, and to link balance of payments support to reviews and agreements on government expenditures.

Rolling back the restrictions on trade

37. Several decades of tariff reductions notwithstanding, industrial countries have increased nontariff barriers (NTBs) in recent years, because of domestic pressures for protection and the inability of multilateral negotiations to affect nontariff barriers. Between 1966 and 1986, the share of imports by OECD countries affected by all nontariff measures are estimated to have doubled. In 1986, more than 20 percent of imports from developing countries to the OECD were covered by "hard core" NTB barriers alone (Laird and Yeats 1987). Aside from this trend, the unification of Europe in 1992, the US-Canada Free Trade Agreement in 1989, and the proposed free trade agreement between Mexico and the United States foreshadow a new era of regional trading blocs. These could further global integration provided members of trading blocs renew their commitment to the GATT, refrain from raising external tariffs, and continue to move toward unilateral trade reform.

38. The effect of industrial country protection on developing countries was estimated conservatively to be around \$35 billion (1980) in forgone exports (Laird and Yeats 1987). The annual welfare loss from food price distortions in OECD countries is an estimated \$50 billion (1985), with the size of

transfers five times as high (Anderson and Tyers 1990). Some developing countries argue that their trade reform is unlikely to survive unless it is met by a reversal of protection in the industrial world (the common agricultural policy, the NTBs on textiles, the emergence of managed trade). Despite the rise in external restrictions, Korea, Taiwan, China, Singapore, and Hong Kong doubled their shares of world trade and of manufactured trade between 1973 and 1986. But for the world as a whole, rising protection in industrial countries and the stalemate of the Uruguay Round are causing a global policy conundrum of the worst kind.

What developing countries can do for rapid development

39. This review also highlights specific actions on the domestic side, each with a blend of market and government roles. These have implications for priorities for countries and the donors.

Invest in people (Chapter 3)

40. In addition to income growth, increases in the size and quality of investments by governments and nongovernment organizations, are required for human development. Much can be gained by building on the experience in government-private sector partnerships and cost-sharing (education systems in Kenya, Philippines, Zimbabwe; health care systems in China, Rwanda,

Zambia). Capital investments need to be complemented with recurrent expenditures (schools with teachers, health clinics with medicines and physicians). Public programs and critical facilities need to reach the community, without undue leakages, in order to make a difference--as in Peru's program to increase primary enrollments, Kerala's (India) health facilities in rural areas, Malaysia's to reduce infant mortality, and Chile's and Costa Rica's to bring down mortality rates. Special attention to female education, in a number of countries where it lags, can have high payoffs.

Establish a competitive market environment (Chapter 4)

41. Industrial licensing and price controls need to be phased out and regulations of market exit and entry need to be relaxed in many countries. These reforms usually need to be complemented by investments in infrastructure by the government and the private sector. But the public sector's claim on resources has to be contained. In this connection, the private sector can often be encouraged to provide services often associated with the public sector, such as social services, transport, telecommunications, industrial research, small-scale rural credit, and agricultural extension. There are many examples of successful partnership between public and private sectors--research and extension by coffee growers in Colombia and cattle rangers in Argentina, veterinary services in Kenya, agricultural extension services in Thailand, consumer credit to

the poor in Bangladesh, Chile, and Indonesia. It might pay to draw in the private sector even into many of the traditional functions of the government; and to provide more external lending and technical assistance directly to private institutions.

Foster global links for technological progress (Chapter 5)

42. Policies for greater openness to the flow of goods, services, investments, capital, and labor are needed to assist in technological development, especially in countries and regions where heavy restrictions are long standing (for example, some of the Socialists in transition, some South Asian countries). It helps to avoid the use of trade instruments for meeting protection and revenue objectives. For establishing strong global links, countries need to phase out nontariff barriers and lower tariffs, to say less than 25 percent. For effective transfers of technology, a responsive and flexible education system and on-the-job training programs are also needed, as implemented by East Asian economies. Government agencies and industry associations (as in Japan and Korea) can, in principle, assist in gathering and supplying information on technology transfer, and in the development of patent protection standards, testing, and quality control; but the quality of such interventions need to be vastly improved.

Ensure a flexible macroeconomic foundation (Chapter 6)

43. Macroeconomic policies need to avoid large fiscal imbalances: the accumulation of even small imbalances soon

results in large deficits and debt problems. Once in macroeconomic crises, stabilization is an essential first step to recovery, as in Peru, Poland, and others. A major challenge in countries such as Argentina, Bolivia, Cote d'Ivoire, and Ghana, with a past record of instability is to stimulate private investment. Because it is unlikely that developing countries will have access to substantial amounts of external savings in the near future, much of the investment financing in these and other countries will have to be obtained domestically, including that from an increase in public savings. External capital flows, on the other hand, will assist development if they are predicated on sound macroeconomic policies.

Reorient and strengthen the role of the government (Chapter 7)

44. The government's role in many countries needs to shift from direct production to areas the private sector neglects even in the presence of the right incentives. The agenda for a reduced state role in many countries includes deregulation and the privatization of state-owned enterprises in production, commerce, and marketing. The agenda for an enhanced role includes: better investments in education, health, transport, and communication; and high quality intervention for poverty reduction and environmental protection in the majority of countries. Despite progress toward participatory reforms, the lack of civil liberties and political freedom remains an issue in many countries. Good governance in many countries requires the

strengthening of the legal system, an independent judiciary, property rights, the civil service, the delivery of public goods, the supervision of banks, the legislation for financial development, political freedom and civil liberties. External assistance is also likely to be more effective with improvements in governance.

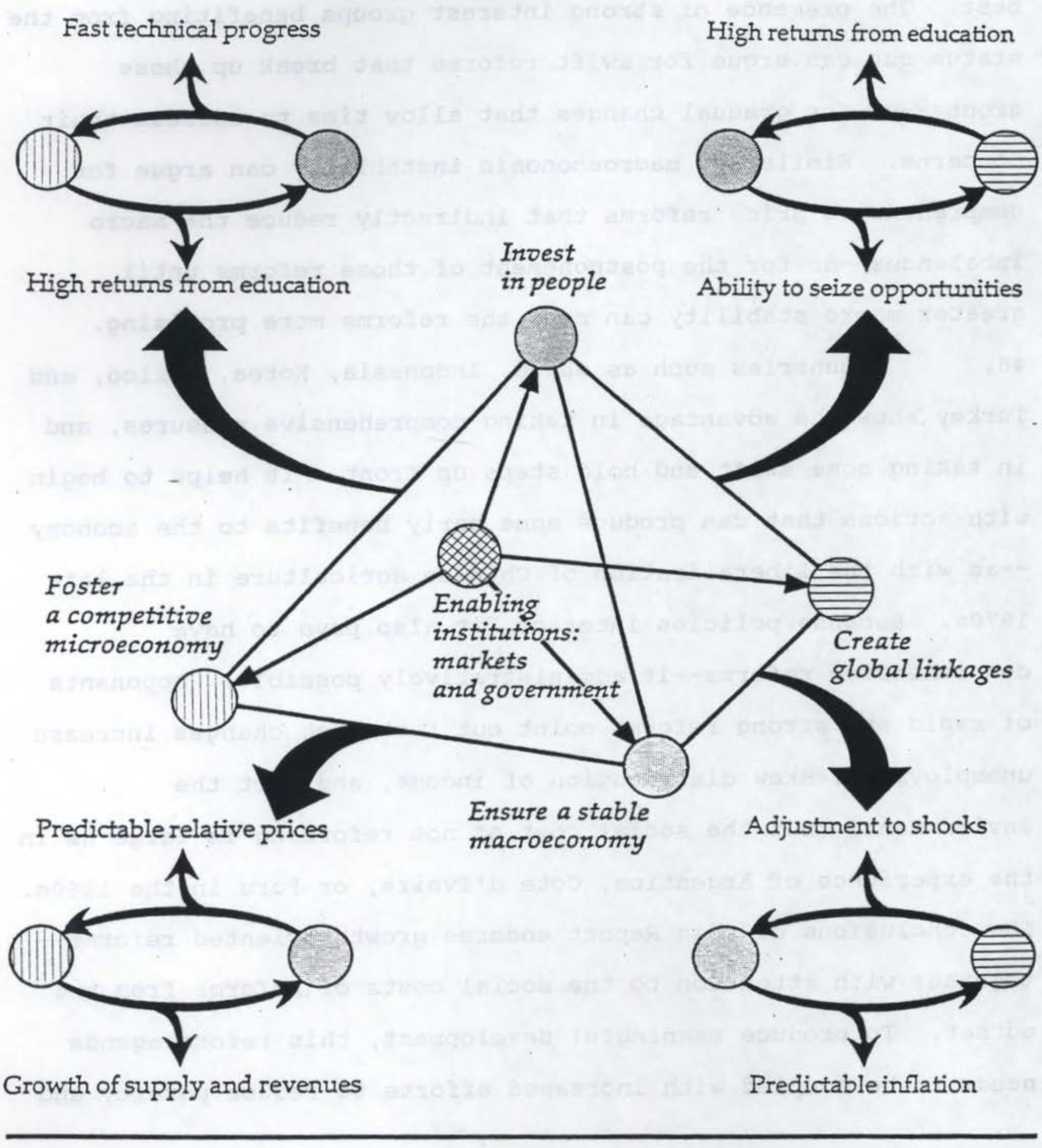
Complementarity of actions

45. The above actions interact (Figure 6). Policies that promote education and foster international linkages work best when adopted together by reinforcing the returns to efforts in each area. Similarly, policies for competition and macroeconomic discipline complement each other in building a predictable economic environment and fostering investors' confidence. As the guardian of this framework, the government determines the extent to which market and government institutions are developed to make these interactions possible.

The art of policy reform

46. Reforms are influenced by experience, ideology, and lobbying by pressure groups. While governments decide on policies, they do not necessarily exercise a free will or do they pick a policy from a wide spectrum of choices. Interplays of economic, historic, political, and social constraints decide what approaches are adopted. Observations of relations between approaches and outcomes may tell us what works. But they do not necessarily tell us how to achieve progress.

Figure 6 Interactions in a market-friendly strategy



47. Thus, more is known about the goals of reform than its desirable scope, speed, and sequencing. Social and political constraints make it difficult to prescribe which reform path is best. The presence of strong interest groups benefiting from the status quo can argue for swift reforms that break up those groups--or for gradual changes that allow time to address their concerns. Similarly, macroeconomic instability can argue for comprehensive price reforms that indirectly reduce the macro imbalances--or for the postponement of those reforms until greater macro stability can make the reforms more promising.

48. Countries such as Ghana, Indonesia, Korea, Mexico, and Turkey show the advantage in taking comprehensive measures, and in taking some swift and bold steps up front. It helps to begin with actions that can produce some early benefits to the economy --as with the liberalization of Chinese agriculture in the late 1970s. Because policies interact, it also pays to have comprehensive reforms--if administratively possible. Opponents of rapid and strong reforms point out that such changes increase unemployment, skew distribution of income, and hurt the environment. But the social cost of not reforming is large as in the experience of Argentina, Cote d'Ivoire, or Peru in the 1980s. The conclusions of this Report endorse growth-oriented reforms--together with attention to the social costs of reforms from the outset. To produce meaningful development, this reform agenda needs to be coupled with increased efforts to reduce poverty and

directly address environmental ill-effects directly--recognizing that sometimes the latter may lead to temporarily slower growth.

49. Since the developing world is far from homogenous, constraints to more rapid development vary among countries (Figure 7). The effect of reforms also vary: a stronger supply response to price reform is observed where educational and institutional development are stronger. Thus priorities differ across countries, and complementing price reforms with investments and institutional development have high payoffs. These linkages mean that expectations about the gains from reforms should be realistic. But they do not call into question the rationale for reform.

The outlook for development

50. The 1990s are promising to be a decade of dramatic changes--some for the better, some for the worse. Central plans, commands and controls are giving way to market and participatory systems in Eastern Europe and elsewhere. The failure of central planning in the USSR has fueled a nationwide debate on market alternatives. Poland, Tanzania, and Vietnam are adopting reforms that emulate earlier ones--in Bolivia, Chile, Ghana, Indonesia, and Mexico. There has also been a shift toward representative government: in a sample of 120 countries, 16 were governed by the military in 1989, down from 29 in 1974. Experiments in

CONSTRAINTS TO DEVELOPMENT ACROSS REGIONS

		SSA	LAC	EMENA	SOC. IN TRANS. a/	SOUTH ASIA	EAST ASIA
HUMAN DEVELOPMENT	**Education/Skills/Technology**	●	◐	◐	◐	◐	○
	Health/Nutrition/Poverty	●	◐	◐	○	●	○
COMPETITIVE ENVIRONMENT	**Regulation/Pricing**	● ↑	○	◐	● ↑	◐	○
	Infrastructure, Marketing	●	◐	◐	○	◐	○
GLOBAL LINKS	**Trade/Investment/Technology**	◐ ↑	◐ ↑	◐ ↑	● ↑	●	○
MACROECONOMIC FOUNDATION	**Fiscal and External Balances**	◐	◐ ↑	◐ ↑	◐	◐ ↓	○
SOCIO-POLITICAL ENVIRONMENT	**Government Size**	●	◐	●	● ↑	◐	◐
	Political Stability/Liberties/Freedom	● ↑	◐ ↑	◐	● ↑	◐	◐
	Resource use/Pollution/Congestion	◐ ↓	◐ ↓	○ ↓	●	○ ↓	●

The Constraints: **Severe** ● **Improving** ↑

Moderate ◐ **Worsening** ↓

Mild ○ **Unchanged unless indicated**

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a/ SOC. IN TRANS. - Socialists in Transition (Eastern Europe and China)

Note: Human development indicators are based on primary school enrollment, infant mortality rate and daily calorie supply, pc; competitive environment on the Krueger et al index; global links on the Halevi-Thomas index and black market premia; macroeconomic foundation indicators on the fiscal and external balances; socio-political environment on government expenditure/GDP and the Gastil index of political liberties. Source: WDR91 Database, WDR90, Survey of Bank economists and country reports.

multiparty democracy are beginning in previous strongholds of authoritarianism (Angola, Chile, Czechoslovakia, Haiti, Hungary, Korea, Mozambique, Namibia, Nepal, Nigeria, and Poland).

51. Economic isolation is in many places giving way to economic integration, but the prospects of regional trading blocs have their rewards as well as pitfalls. Political integration in Germany contrasts with the rifts in the USSR, and Yugoslavia. The longest expansion in the industrial world is losing speed, and the financial framework that supported the expansion now appears fragile. The war in the Middle East has exposed the vulnerability of peace.

52. Despite the present slowdown and global uncertainty, the opportunities for rapid development are greater today than at any time in history. One opportunity is in the strong international links for trade, investment, and technology--far stronger than forty years ago. OECD trade expanded at 6.5 percent a year since 1950, compared with an annual output growth of 3.8 percent. A second opportunity is the basic knowhow in medicine, science, and engineering--all available worldwide. A third is the better appreciation by policymakers of development options and approaches than at any time before.

53. The challenges of being a player in the global economy are also tougher. The costs of not competing and of becoming isolated from world markets--whether from unhelpful policies, foreign barriers, or inadequate endowments--are greater today

because of the growing gaps in technology. The pace and variety of change--the socialist transition, the formation of trading blocs, the revolution in technology, and the problems of the environment--create uncertainty about the external conditions for development. And there are other critical problems--such as starvation in the Horn of Africa; urban pressure in Latin America; environmental crisis in China and Eastern Europe; water scarcity in North Africa; the arms race in South Asia and the Middle East; drugs and crime in the United States and Latin America; political violence in the United Kingdom and India; ethnic and religious strife in Africa, Middle East, South Asia, and the Soviet Union.

54. The turn of the 1990s graced the world with widespread reforms, growing regional cooperation, the end of the cold war, and continuing advances in science and technology. But it also brought highly uncertain oil markets, high international interest rates, weak financial institutions in the United States and Japan, economic downturns in several OECD countries, and prolonged negotiations in the Uruguay Round. OECD country projections for the 1990s, assuming good policies and a reasonable amount of policy cooperation, indicate an average per capita GDP growth of about 2.5 percent a year, a relatively low inflation rate, and real interest rates of around 4 percent. If there is a healthy increase in world trade of 5 to 6 percent a year and if reforms are maintained and continued, per capita

Table 1 Growth of GDP per capita, 1965-2000

	1965-73	1973-80	1980-89	Projections for the 1990s Baseline	Downside
Industrial countries	3.7	2.2	2.5	2.5	1.8
Developing countries	3.5	3.0	1.9	2.9	2.3
(Assuming poor policies)	--	--	--	(0.8)	(0.2)
(Assuming strong reforms)	--	--	--	(4.2)	(3.6)

Source: Chapters 1 and 8.

income in the developing countries as a group might grow at nearly 3 percent a year.

55. The country and regional differences are expected to remain large, although somewhat less than in the 1980s. But stronger reforms and faster technological progress could raise growth in developing countries by an additional percentage point a year, perhaps more. On the other hand, a major policy slippage or other setbacks could reduce their growth, independent of OECD performance. One thing is certain. The outcome will hinge on how well countries exploit opportunities and adapt to relentless change. Succeeding under rapidly changing external conditions requires country policies to be highly flexible and to promote flexible economies.

56. The test of global development will be whether increasing proportions of the world population can lift themselves from poverty into decent living conditions without damaging the earth's environment. For this to happen, open markets and hospitable policies for the flows of goods, resources, and technologies, as well as global efforts to protect the environment, are necessary. The challenge for the development community is to facilitate financing and global policy reforms--and to support domestic policies and institutions that show the most promise for bringing progress.

THE WORLD BANK/IFC/MIGA

FOR YOUR INFORMATION

FYI/90/174
October 18, 1990

STAFF ANNOUNCEMENT

WORLD DEVELOPMENT REPORT, 1992

The 1992 World Development Report will focus on issues of the environment. It will analyze key linkages between the natural environment and economic growth, population and poverty, and will assess policy and program options for promoting sustainable development and good stewardship of natural resources. In view of the importance and complexity of this task, and our intention to publish the Report in good time for the June 1992 United Nations Conference on Environment and Development, this year's team will begin work earlier than usual, in January 1991.

I am pleased to announce the appointment of Andrew Steer as Staff Director of the 1992 WDR. The preparation of the Report will, of course, draw heavily upon the expertise of staff throughout the Bank, as well as from the Environment Department. I am sure that I can count on your cooperation and support in this very important work.

Barber Conable

OFFICE MEMORANDUM

Mr. Wlaco:
The P.C. has affirmed ~~the subject~~ Environment as the Topic for 1992 WDR
VR
7/15

RECEIVED
013
90 JUL 10 PM 5: 19
OFFICE OF THE ... SECTOR POLICY & R...

DATE July 10, 1990

TO Distribution

FROM Ajay Chhibber AC

EXTENSION 33776

SUBJECT **WDR 1992**

Pauline: July 16
Please hold for VR for Dirs. meeting.
Thanks.
PXC

The attached note on WDR 1992 was prepared for tomorrow's P.C. at Mr. Thalwitz's request. Copies were sent, through Mr. Thalwitz, to Sven Sandstrom for distribution to the President's Council.

Distribution:

Messrs S. Fischer, V. Rajagopalan, J. Linn, A. Steer

Attachment

WDR 92 : Environment and Sustainable Development

The 'Environment' emerged as a topic for serious consideration for the World Development Report in FY91. At that time other topics under consideration were 'Economic Development : Retrospect and Prospects ', as well as 'Urbanisation' and 'The Role of Infrastructure'. The topic finally selected was 'Economic Development: Retrospect and Prospects'. During those discussions it was felt that it would be useful to plan ahead in terms of potential WDR topics so that work programs could be geared towards preparing inputs for the Bank's most important report and its showpiece. This would reduce the sudden scramble to prepare material for the WDR.

It was generally agreed, but by no means decided, at that time that we should begin preparing for a WDR 92 on 'Environment and Sustainable Development'. The decision to prepare for a WDR 92 on the Environment, instead of on one of the other topics under discussion, was based on a number of considerations.

The most critical factor was the importance of the topic. The Environment is emerging as the key global issue for the 1990's. It is a topic on which policy makers, both in the developed as well as the developing countries are not sure what needs to be done. They are looking for a well reasoned direction and strategy which a WDR traditionally is designed to provide. The selection of the topic reflects to the rest of the world our priorities on development issues. It complements the lead role we have taken through our efforts on the Environment Fund.

We have a substantive work program in PRE, in the Technical Departments and in the operational divisions on this subject. We have , for example, begun work in DEC to address some of the key questions that would be asked in such a WDR. This complements ongoing work in PRS. We have the expertise to draw in the large volume of work going on in other organisations as well as in institutes in different parts of the world. We are involved in a number of joint research and policy papers with these institutes. We are in a position to deliver a quality WDR along the lines of the attached outline.

There was, and still is, no doubt that the Environment WDR would be somewhat different from other WDR's. On previous topics the Bank has accumulated vast knowledge and experience. But on the Environment we cannot make the same claim. This would therefore be more of an agenda setting WDR - What are the key issues ? How can we think about them ? What has been tried ? What are the local and national issues ? What are the global issues ? and Where do we go from here ?

On timing, a key factor is the planned International Conference in 1992 on Environmental Issues (20th Anniversary of the Stockholm Conference). The intention here is to have a WDR on the Environment completed and under discussion by March/April 1992 before this major conference (this would require bringing the completion of the WDR forward by 3 months). One coming out after the conference would appear as if the Bank was again playing catch-up.

It should be noted that in the dissemination exercises on the last three WDR's we are being asked repeatedly as to when we intend to write one on the Environment. Even in the London seminar this week on the Poverty WDR we were urged to do a WDR on the Environment. Previous WDR's have touched on environmental issues in a piece-meal manner. It would be useful to put our views together in a coherent manner in our most important and publicised document.

WDR 1992: ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

1. Developments in the World Economy

Inter-relationships in the Global Economy; Medium and Long Term Projections, How environmental issues have underscored the extent of interdependence.
Emerging trade-offs and the need for collective action.
Chronological Milestones in Global Environmental Awareness.

Chapters 2-4 describe and discuss the problem.
Chapters 5-7 suggest the likely solutions.

2. Indicators of Emerging Environmental Problems

What are the physical indicators of emerging environmental problems; at the local, regional, trans-national, and global level, e.g., soil degradation, forest cover, acid rain, global warming, threat to bio diversity.
How extensive are these and how do they vary across regions? Are we crossing irreversible thresholds?
Potential implications for society in the 21st century; Unexpected changes in the last 50 years.
Evidence of growing awareness and some constructive solutions, but slow policy responses.

3. Growth, Sustainability and Human Behavior

Concepts of growth, development and sustainability: history of changes in thinking.
Key Relationships:
Poverty, population growth and the environment.
Economic Growth and the environment.
Role of technology in circumventing resource constraints.
Can it continue or do we need fundamental changes in behavior?

4. Causes of Environmental Degradation

Population Pressure - Future Trends and Implications
Rational Societal Choice - Utilitarianism
Market Failure
Policy and Institutional Failure

5. <u>Changing Private Behavior</u>

Addressing ignorance and lack of awareness - role of media, community participation.
Addressing externalities - regulation, taxation, prohibition; proprietary rights to common resources; valuing environmental benefits and costs; border pricing with trans-national effects.
Addressing inter-generational concerns - discount rates; the economics and ethics of reversible and irreversible effects.

6. <u>Changing Public Policies and Institutions</u>

Different approaches to addressing environmental problems - country policies.
Problems emerging from lack of coherent environmental policies; unintended effects of macroeconomic, sectoral and regulatory policies.
National income accounting, integrating environmental and development policy,
Centralization/ decentralization issues.
Contribution and role of NGO's.
Political Action and the Green Movement.

7. <u>International Initiatives</u>

Autonomy of Policies and the issue of national sovereignty - need to think globally
Progress with trans-national initiatives - Montreal Protocol, IPCC, Mediterranean Action Plan etc.
Issues in International Funding and Administration - Environment Fund, CFC Fund, Debt-Nature swaps. Is there need for supra-national agency?

8. <u>An Agenda for the Future</u>

Environmental Issues: Aggravating International Stress or opportunity for cooperation.
Role of Scientific Research in finding alternatives.
Harnessing Economic Growth to Address Environmental Problems

Partial List of Some Potential Boxes

1. The Greenhouse Effect : Decision Making Under Uncertainty When there are Irreversible Changes.

2. The Problem of Acid Rain : Game Theory Applied to Trans-National Environmental Problems.

3. Mineral Resource Extraction : Discount Rates and Depletion Premium.

4. Taxes, Land Tenure and Deforestation in Brazil and Costa Rica.

5. Valuing Environmental Goods : Fisheries, Forestry and Tourism.

6. The Economics and Non-Economics of Ivory Pricing and how to Save the Elephant.

7. Himalayan Deforestation and Flooding in Bangladesh

8. Saving the Trees through Grass-Roots Action : The Chipko Movement.

9. Environmental Disasters and Public Awareness: Chernobyl, Bhopal, Exxon Valdez

10. Saving the Whales : Different Country Responses

11. Schooling, Livestock and Desertification in Botswana

12. Transport Alternatives : Rethinking the Role of the Automobile.

13. Institutions for Environmental Management : The Case of Indonesia.

Pl. keep in WDR file. VP 7/6

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

RECEIVED
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90 JUL -6 AM 9:42
OFFICE OF THE VICE PRESIDENT
SECTOR POLICY & RESEARCH

Office of the Vice President,
Development Economics
and Chief Economist.

Direct Fax No. (202) 477-0549

FACSIMILE TRANSMISSION

DATE: July 6, 1990

TO: Mr. W. Thalwitz
Messrs V. Rajagopalan, A. Shakow, P. Isenman

ROOM:

PHONE NO.:

FAX NUMBER:

FROM: Mr. Stanley Fischer

ROOM: S-9035

PHONE NO.: (202) 473-3774

FAX NUMBER: (202) 477-0549

REMARKS:

Please see attached.

NUMBER OF PAGES, INCLUDING THIS PAGE 5

July 6, 1990

Mr. W. Thalwitz

Wilfried:

WDR 1992 - Draft Outline

Attached for our discussion today, is a suggested outline for the environmental WDR. It reflects the suggestions of the working group and of a number of other commentators.

Stan

Stanley Fischer

Attachment

cc: Messrs. Rajagopalan, Piddington, Shakow, Isenman, Ingram, Warford, Colaco, Steer, Chhibber

WDR 1992: ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

1. Developments in the World Economy

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Chronological Milestones in Global Environmental Awareness.

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Chapters 5-7 suggest the likely solutions.

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Can it continue or do we need fundamental changes in behavior?

4. Causes of Environmental Degradation

Population Pressure - Future Trends and Implications
Rational Societal Choice - Utilitarianism
Market Failure
Policy and Institutional Failure

Financing for effecting changes.

5. <u>Changing Private Behavior</u>

Addressing ignorance and lack of awareness - role of media, community participation.
Addressing externalities - regulation, taxation, prohibition; proprietary rights to common resources; valuing environmental benefits and costs; border pricing with trans-national effects.
Addressing inter-generational concerns - discount rates; the economics and ethics of reversible and irreversible effects.

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11. Schooling, Livestock and Desertification in Botswana

12. Transport Alternatives : Rethinking the Role of the Automobile.

13. Institutions for Environmental Management : The Case of Indonesia.

VR0/0

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: 28-Jun-1990 03:41pm

TO: See Distribution Below

FROM: Patricia Gallagher, PRESV (PATRICIA GALLAGHER)

EXT.: 80124

SUBJECT: Meeting with WT on WDR1992

I am attaching an em from James Feather dated June 18 to Mr. Fischer and Shakow. Mr. Thalwitz would like to meet with you on Friday, July 6 at 11:30 am. Please confirm your availability. Thanks.

O.K.

DISTRIBUTION:

TO:	Stanley Fischer	(STANLEY FISCHER)
TO:	Visvanathan Rajagopalan	(VISVANATHAN RAJAGOPALAN)
CC:	Wilfried Thalwitz	(WILFRIED P. THALWITZ)
CC:	Kate Oram	(KATE ORAM)
CC:	Pauline J. Clephane	(PAULINE J. CLEPHANE)
CC:	Alexander Shakow	(ALEXANDER SHAKOW)
CC:	Esla Blackman	(ESLA BLACKMAN)

1. Sp

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: 18-Jun-1990 05:20pm EST

TO: Stanley Fischer (STANLEY FISCHER)
TO: Alexander Shakow (ALEXANDER SHAKOW)

FROM: James Feather, PUBDR (JIM FEATHER)

EXT.: 37516

SUBJECT: WDR1992

For your information, the World Resources Institute has decided to devote the 1992-93 edition of World Resources to the topic of environment and development and to publish the report before the U.N. conference in June 1992.

If we intend to do the same we really ought to do some planning now about our own schedule (see my A-1 of June 8th).

CC: Timothy Cullen (TIMOTHY CULLEN)

① Mr Marco
② Paulin to file 4/12

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023
SECTOR POLICY & RESEARCH

THE WORLD BANK
POLICY, RESEARCH AND EXTERNAL AFFAIRS
PRE COMMITTEE

Minutes of the Meeting of April 6, 1990

Present

Committee	**Others**
Messrs. W. Thalwitz, Chairman	Messrs./Mmes. F. Aguirre-Sacasa, EXTDR
S. Fischer, DECVP	R. Ayres, WDR
V. Rajagopalan, PREVP	G. Ingram, PRESV
A. Karaosmanoglu, ASIVP	K. Jay, SPRPA
I. Shihata, LEGVP	A. Khanna, EXC
S. Burmester, SECGE	R. Liebenthal, SPRPA
G. El Rifai, MIGPA	G. Pfeffermann, CEIED
B. Kavalsky, FRM	R. Picciotto, PBDDR
A. Shakow, Secretary	S. Rajapatirana, EAS
	H. Ribe, WDR
	L. Squire, WDR
	M. Sundberg, WDR
	V. Thomas, CECTP
	J. van der Gaag, WDR
	M. Walton, WDR

WORLD DEVELOPMENT REPORT

INTRODUCTION

The Committee recognized that this was an extremely important topic and report for the Bank. There was much praise for the report, which members believed was generally well-written and well-argued. There was general acceptance of the basic messages, although it was agreed that the overview did not do justice to the full text and some sections in the full text needed sharpening. The discussion broadly covered the issues identified in the PRE Committee agenda, including: the clarity of the message, the linkage of aid and poverty efforts, the degree of emphasis placed on social reforms and political factors, the effectiveness of social expenditures and the potential role of NGOs.

DISCUSSION

Clarity of the Message and Linkage to Applications

The Chairman asked about the relationship between the WDR and the forthcoming Poverty Reduction and Bank Operations report. It was explained that the 1988 Poverty Task Force report and this follow-up Operations report focused primarily on specific Bank poverty interventions. The WDR was more broad-ranging, moving in some respects beyond the Task Force analyses. The WDR placed more emphasis on the critical role of economic policy in poverty reduction, but with the revisions of the Operations report now underway there should be no basic inconsistencies between the messages. The President's Council in its review of the Operations report agreed that it would be desirable to have the WDR reviewed by the Board either prior to or at the same time as the Operations report so that the broader context would be set properly. Mr. Thahane would seek to arrange for this sequence in his meeting with the EDs' Steering Committee, Monday, April 9. [This was subsequently accomplished; the WDR is to be discussed May 17, the Operations report on May 22.]

Moving to the WDR, the Chairman asked whether the links were clear enough between policy prescriptions and what external agencies should do to help address poverty. What actions are most effective? While Mr. Fischer said more could be added in this area, he thought it would be a mistake to focus too much in the WDR on specific operational applications, as it could reduce the impact of important policy messages. When the WDR outline was approved, it was agreed that PRE would, after the WDR, prepare a policy paper that would draw the operational links. Other speakers indicated that a separate policy report, while useful within the Bank, would not be as effective as the WDR in conveying important messages to developing country policymakers and aid practitioners as to what they should do to make their poverty reduction efforts work better. It was agreed that key sections of the report would be reviewed to highlight the message and that the overview in particular would be sharpened to reflect more forcefully the basic themes and implications.

Thesis and Themes

The authors explained that in preparing the WDR the first step had been to look at what countries successful in reducing poverty had done. The two key elements flowing from that analysis were the generation of income-earning opportunities for the poor -- through the elimination of distortions and investment in infrastructure and technology -- and the provision of social services which help the poor develop their human capital. This strategy permits the poor to use what is often their only asset, their labor, more effectively. There was general agreement with this basic theme.

Several speakers, however, were concerned that too much emphasis seemed to be placed on the ability of the market to address the poverty problem and too little attention paid to the need for more radical social reform; issues of equity, participation, and the rules of governance they felt needed more attention, as did the potential tension between rational social and economic policies.

One speaker also emphasized -- and others agreed -- that while the basic theme was correct, it could be strengthened by highlighting that current "poverty-oriented" expenditures -- both direct and indirect -- are often not effectively used -- i.e., it was not only that more resources were needed, but existing resources could be used much more effectively. The authors agreed that this point could be strengthened, although it was addressed in Chapter 5.

Several speakers were concerned about the potential message conveyed by the use of terms such as labor intensive/labor enriching technology. To some readers these would be code words that had meanings different from those intended by the authors. The message should focus, it was agreed, on the need to remove anti-employment biases.

Political Economy

Several members considered that the report was weak in its analysis of political issues and gave inadequate attention to the important role to be played by social organization and other socio-political factors. In this connection, several speakers felt that there should be more discussion of the potential role of NGOs in implementing a poverty reduction strategy, recognizing that this role will differ from country to country. At the same time, use of NGOs to address poverty should not become an excuse for governments not to take action.

One speaker specifically questioned the realism of creating coalitions of poor and non-poor. It was also questioned why the report was so cautious in its position on social reforms where those people hurt may be the rich, especially as the Bank had not been so reticent on adjustment and economic reforms where the poor can be seriously affected. The authors pointed out that the WDR had emphasized the importance provision of social services had to effective poverty reduction; this was clearly redistributive in nature and would result in significant taxation of the rich.

Aid Allocation

Many speakers questioned the specificity of the recommendation in Chapter 8 that aid allocations be based on a country's poverty reduction policies and performance. Among the issues raised were: the seeming contradiction between poverty-focused aid having been misused in the past and the call for the new basis for allocation being poverty-focused; the difficulty of measuring a country's commitment to poverty reduction; the degree to which the Bank itself follows such an allocation policy; the danger that such a policy would lead to mechanistic approaches; the realism of separating the development and political components of aid; and the importance of other considerations in the allocation of aid, including adjustment. Also, should the Bank place itself in the position of telling others how to allocate their aid? Would, for example, similar recommendations also apply to the allocation of aid for the environment?

Mr. Fischer argued that there was a very important message here on which the Bank should take a stand. The Bank needs to state that a more rational approach to aid allocation is needed, and that the success of future poverty reduction efforts depends on learning from both the successes and failures of the past; the WDR has done this.

It was agreed that while the basic message should be retained, Chapter 8 needed to be redrafted to reduce the impression that there was a simple specific formula by which aid could be allocated; the message should focus on a more general call for better aid allocation.

Other Points

1) Economic Projections. Several members felt that the projections in the economic overview section were too optimistic. With slow growth expected in the early 1990s very fast growth in the outer years would be necessary to achieve the decade average. Also, was the comparison of the 1980s with the 1990s helpful?

2) Classification. A speaker was concerned that the country classifications were arbitrary and that the conclusions such as those on aid allocation could be altered significantly simply by changing the definition of low income. Also a quantitative definition of the poor was insufficient. A definition of the poor should also take into account other aspects such as access to social services and participation.

3) Private Sector. It was suggested that more attention be given to the potential role of the private sector in poverty reduction.

4) Case for Increased ODA. One speaker felt that the case for increased ODA needed to be strengthened.

CONCLUSION

It was agreed that the authors would begin to modify the WDR to reflect the major points made at the meeting; specific comments would be passed on directly to the authors. The report would be discussed by the President's Council on Wednesday, April 11, with these minutes made available by c.o.b. April 9.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: November 14, 1989

TO: Mr. Stanley Fischer

FROM: V. Rajagopalan

EXTENSION: 33419

SUBJECT: Outline of WDR 1991

Thank you for sending me a proposed outline for WDR 1991. I believe the topic is appropriate and timely. A close link between the chapter under Part I "A Long-Term View of World Development" and the chapters under Part II is crucial. I agree that the topics proposed to be covered under Part II are clearly essential for a thorough discussion of the subject. However, if they are merely analysed, described and discussed as separate items, they would be seen as dishing out more of World Bank gospel. The coverage of the topics could be accomplished and the messages intended could be conveyed equally successfully through a discussion of topics organised differently. For example, there could be a discussion of the development experience (successes and failures) of multilateral and bilateral agencies, and national governments through the past four decades (50's, 60's, 70's and 80's). The development philosophies and the different models and approaches used (market oriented, capital intensive, centrally planned, mixed economies, labor intensive approaches; Chinese model, Yugoslav model, etc.) could be analysed for their accomplishments and drawbacks.

A discussion of lessons of development experience of NICs, and other selected countries (e.g., Japan, U.K., Germany, India, China, Brazil, Zimbabwe) would serve to enrich the paper.

Another chapter could discuss, on the basis of the experience of the past four decades, alternate development models and strategies (less energy intensive, taking better account of natural resource endowment, etc.) for the future to deal with the staggering problems of population, poverty, food security, unemployment, environmental degradation, ignorance and illiteracy, lack of basic needs like water supply, sanitation and health care.

It seems to me that an examination, de novo, of the role of external aid and external technical assistance in the development process would also be very appropriate.

VR:lgv

cc: F/C

P-1867

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

(1)

DATE: November 8, 1989

TO: Mr. V. Rajagopalan

FROM: Stanley Fischer SF

EXTENSION: 33774

SUBJECT: WDR 1991

RECEIVED
89 NOV -9 PM 4:58
OFFICE OF THE VICE PRESIDENT
SECTOR POLICY & RESEARCH

11/15

As you know the topic proposed for the 1991 WDR is Development. I'd very much appreciate any comments you might have on the attached draft outline.

Attachment/-

Mr. Colaco

This is very traditional approach based on traditional thinking and Bank prescriptions for improvement. If we are proposing A WDR on "Development" should not Part II be on a discussion of alternate development strategies and models?

Let us discuss before I send a response to this

VR
11/11

WDR 1991: DEVELOPMENT

Overview

Perspectives on economic development
World Bank advice and alternatives
Lessons of development experience
An agenda for the future

Part I Recent and Long-term Developments in the World Economy

1. **The State of the International Economy**

Upswing in economic growth
Resolving the debt problem
Roadblocks to world trade
Economic policies of industrial countries
Economic policies of developing countries
Scenarios for sustained recovery in the 1990s

2. **A Long-term view of world development**

Historic trends in growth and welfare
Post world war II expansion and concerns
Crisis of the 1980s and beyond
Diversity of development experience and lessons
Industrialization, sustainability and strategy
Emerging development consensus

Part II Rethinking Development Strategies

3. **How to Get the Macroeconomic Framework Right**

Policy interactions and conflicts
Stabilization vs. structural adjustment
The budget and inflation
Determinants of investment and growth
The debt problem and sustainable growth

4. **Management of Economic Development**

The size and quality of government
Building management capacities
Fostering entrepreneurship and the private sector
Reform in the socialist countries
Balance in market incentives and government support

5. The Human Side: What Should be Done?

   Interaction between growth and welfare
   Education, training and skills
   Population, health and nutrition
   Efficient and equitable provision of services
   Poverty and income distribution

6. Achieving a Sustainable Increase in Production

   The role of agriculture
   Fostering industry and trade
   Rebuilding infrastructure
   Keeping pace with technology
   The environment and growth: two way links

Part III Policy Implications for the Future

7. Directions for Policy

   A synthesis of what we know
   Unresolved issues and promising avenues
   What is missing from current approaches?
   Policy priorities in developing countries
   Impacts of industrial country policies
   Prognosis for the 1990s

THE WORLD BANK/IFC/MIGA

FOR YOUR INFORMATION

FYI/89/54
May 16, 1989

STAFF ANNOUNCEMENT

WORLD DEVELOPMENT REPORT 1990

The World Development Report in 1990 will focus on policies to reduce poverty in developing countries. While this central issue of development permeates and influences all our work, the 1990 Report will provide a comprehensive overview of our current understanding of its causes and possible methods of attacking the problems of poverty. It will present the World Bank's current thinking ten years after these themes were last addressed in a World Development Report. Among other things, the Report will examine the incidence of poverty by region, the nature of the relationship between growth and poverty reduction, the role of health and education, especially for women, as a means of escaping poverty, the scope for special interventions targeted at the poor, and the additional problems that can arise for the poor as countries respond and adjust to changing economic circumstances. Policies that can be undertaken by both the industrialized and the developing countries will be assessed by examining their impact on poverty through the year 2000.

The Core Team will be led by Mr. Lyn Squire and as in the past will draw upon the expertise of staff throughout the Bank. I am sure that I can again count on your fullest cooperation in this important work.

Barber Conable

WDR on Poverty: Talking Points

- I can be brief in my comments on this Report.

- The Report does a good job of clinically examining the various dimensions of poverty.

- Its findings are generally consistent with the Bank's experience and other major Bank reports on the subject (e.g. WDR 1980), although its emphasis tends to be more on the economic dimensions of poverty, and less so on its social and political aspects.

- This is particularly true in its treatment of equity issues. It, perhaps, leans too much in the direction of accepting economic instruments for dealing with equity issues, and does not pay sufficient attention to its social and political aspects.

- Finally, its most provocative suggestions concern the allocation of aid by donors, where it calls for poverty alleviation efforts as a principal determinant of aid allocations. It would be interesting to know what the implications of application of such a criterion would be for the allocation of Bank lending, and how this would be consistent with other Bank objectives such as adjustment, debt management and environment.

- Role of Voluntary agencies.

-

- The overview does not adequately reflect (or make intelligible to the reader) the contents of the Report.

For example -

- para (xi) refers to "labour-enriching growth" and makes no reference to nutrition (while this is discussed in paras 5.36-37)
- Cryptic reference to "self targetting" in para xix presumably refers to self selection (ie limiting subsidies to commodities that are consumed principally by the poor (para 6.19). - Subsidization of commodities which induce "self-selection".
- para xx refers to the need to reflect the interests of the poor "in decisions on the most powerful economywide instruments and not solely in the context of narrowly defined poverty projects". How does one reach landless, asset-less poor thro' these instruments?

1.5 – Too optimistic – Aggregation is outstanding – General tone – ideological – Market works – Poverty of Country vs Poverty of people.
AK Resource use — Role of Private Sector.

WDR on Poverty: Talking Points

I can be brief in my comments on this Report.

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Mr. Rajagopalan

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

RECEIVED
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90 APR -4 AM 10:43
OFFICE OF THE VICE PRESIDENT
SECTOR POLICY & RESEARCH

DATE: April 3, 1990

TO: Members of the PRE Committee

FROM: Alexander Shakow, Director, SPR

EXTENSION: 34697

SUBJECT: Agenda for PRE Committee Meeting on the 1990 WDR
Friday, April 6, at 4:00 p.m., Room D-1204

1. General. The WDR systematically addresses the questions of who and where the poor are, how they have been faring in terms of both income and welfare indicators, and how to reach and help them most effectively. In addition, it examines the entire range of domestic policy and institutional issues that determine the nature of growth and, in particular, the ability of the economy to absorb poor people into productive, self-sustaining employment. Its fundamental thesis is that poverty is best addressed by a mix of policies and institutions aimed at absorbing labor in this fashion. A supportive economic and policy environment is at least as important as direct measures (investments and services) aimed at increasing the productivity of the poor, and will increase their effectiveness and sustainability. These measures also include providing the transfers and safety nets to alleviate unacceptable levels of deprivation, whether chronic or transitory.

3. Basic Thesis of WDR. Does the Committee endorse the WDR's general analysis and recommendations?

- Are the basic themes well-conceived and do they come across clearly?
- Is the evidence convincing for the principal analytical propositions of the Report (chapter 3)?
- Is there an adequate coverage of the proposed strategy (chapters 4, 5 and 6)?

The WDR is broadly consistent with, but nevertheless a substantial departure from, the 1988 Report of the Poverty Task Force which concentrates on projects and ESW oriented toward reaching and assisting the poor. The forthcoming Board Report: Poverty Reduction and Bank Operations is based on the recommendations of the 1988 report, and will present a similar message. Do the two documents have enough complementarity so that major issues of consistency will not be raised by the Board and other readers?

4. Style and Tone: Do the Poor Appear? Has the Report struck the right balance in style and tone between intellectual rigor and empathy for the human problems of poverty? (The two are not, of course, mutually exclusive!) Is there an adequate analysis of the economic, institutional and market environment in which the poor

actually operate, either as laborers, or as service, trading or informal sector micro-entrepreneurs. Does the description of the characteristics of poverty (chapter 2) capture these elements?

5. Political Economy. Have political economy issues been given enough weight in the explanation for why so many countries have performed badly in terms of either efficient growth or income distribution? The recent Africa LTPS raised the problems of rents, corruption, and governance. Should the WDR raise these sensitive issues even more strongly in the context of their relationship to growth and poverty?

6. Are the Report's recommendations politically feasible? Is adequate attention given to the political strategy (e.g. building the kinds of poor-nonpoor coalitions) necessary to introduce policy reforms?

7. Aid Strategy and Intercountry Resource Allocation. Following a critique of the performance of donors, particularly with respect to poverty, the Report has a number of far-reaching recommendations relating to the allocation of aid and to donor behavior. These include using poverty reduction criteria, either in terms of appropriate packages of domestic policies and measures, or in terms of statistical performance in this area, as a prime determinant of country allocations, especially for concessional support. Does the Committee agree, and how does it view their relevance to the Bank's own actions? Does the Committee find the advocacy of increased aid volumes in this context both necessary and convincing?

8. Looking Ahead and Future Options. Does the Report pay enough attention to future scenarios and emerging problems in the area of poverty? What are the key poverty issues for the next decade or so? Population growth? Urban problems? Lagging areas? Environmental pollution? Is the interaction between poverty and the environment given adequate attention?

Distribution

Messrs. Thalwitz, Fischer, Rajagopalan, Karaosmanoglu, Wapenhans, Wood, Shihata, Thahane, El-Rifai, Kaffenberger

cc: Messrs./Mmes. Jaycox (AFRVP), S. Husain (LACVP), Picciotto (CPBVP), Kashiwaya (CFSVP), Alisbah (PAAVP), Aguirre-Sacasa (EXTDR), Haug (EXC), Dubey (EAS), D. Lee (CODDR), Ingram (PRESV), Vergin (OPNSV), Okonjo-Iweala (OPNSV), Annez (FINSV), Holsen (CECDR), Linn (IECDR), Squire (WDR)

FORM NO. 75
(6–83)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: May 12, 1987

NAME	ROOM NO.
Mr. V. Rajagopalan	H-10-067

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

REMARKS:

To keep you posted. A book on Agriculture is also almost finished.

FROM:	ROOM NO.:	EXTENSION:
Ananda	A-800	7-6589

OFFICE MEMORANDUM

Does not include post-January activities such as Colombia etc.

Date: December 16, 1986

To: Mrs. Anne Krueger and Mr. Constantine Michalopoulos

From: Anandarup Ray, Staff Director, WDR 1986 AR

Subject: The World Development Report 1986 - Dissemination

1. I have previously reported on my trips in standard Back-to-Office formats. The purpose of this note is to briefly consolidate those reports.

2. Altogether, I have given 14 seminars, in addition to various other activities such as interviews with the BBC, Swedish radio and two different Australian television programs. The seminars can be classified into two groups:

- Evenly balanced presentations of the whole Report, including Part I (London, Paris, Bonn, Rome, Bangkok and Canberra). I had co-speakers in three cases. In Paris, presentation of Part I was made by Mr. John Wilton. In Canberra, my presentation focused mainly on the world economy (Part I), but my co-speakers (the Australian Cabinet Minister, Mr. John Kerrin, and Professor Rodney Tyers) presented the Part II highlights based on speeches that I had a chance to comment on beforehand. I also had co-speakers in Bangkok, including Dr. Chaiyawat, the Director of Research at the Bank of Thailand, and Dr. Ammar Siamwalla.

- Presentations with primary emphasis on Part II (New Delhi, Bombay, Madras, Calcutta, Manila, Brussels, Bologna and the IMF Institute). Within this group, the policy issues in developing countries (basically Chapters 1, 4 and 5) received the most attention in the four Indian seminars. The Indian audience was primarily interested in those three chapters, which many of them had thoroughly read. Many questions of detail and methodology were raised. In other cases, particularly in Brussels and Manila, the primary interest was on the interactions between policies in industrial and developing countries. The Brussels seminar - attended by senior officials of the EEC - was particularly concerned with OECD policies. My presentation was extremely well-received, and I have been invited back to give them advice on the design of their policy studies. The Bologna conference centered for the most part on topics covered in the Report, and I had an opportunity of getting professional feedback from various well-known experts including Gale Johnson, Alberto Valdes, Robert Evenson, Michel Petit, John Mellor, and Pasquale Scandizzo.

3. Regarding reactions to the Report, there have been numerous write-ups by the international press. There has also been many articles which, while not always directly referring to the Report, were clearly influenced by it. According to my scan - admittedly a partial one - the most favorable reactions were in the OECD press, especially in Britain. The best write-up was in The London Times of July 8, 1986, following our London seminar (attached). Both The London Times and The Economist have once again come out with articles and editorials due to Mrs. Thatcher's current bid to reform CAP. They mention or draw upon the Report. For the first time, a World Development Report has been reviewed in The Times Literary Supplement, with Christofer Johnson referring to the "splendid World Bank team" (attached).

4. I have no detailed knowledge about reactions in developing countries except India. Some of the reviews in India immediately following the publication were negative: more liberal trade in agriculture was not considered in those reviews to be either feasible or desirable for developing countries. One review even suggested that the Bank was pushing freer trade because it would benefit the OECD countries at the expense of developing countries. I gave considerable emphasis to clearing up such misconceptions during my seminars, which led to responsible follow-up reviews. The Business Standard, which had earlier printed a dubious review, even gave a full page treatment to the Report, reproducing my interview with the paper, as well as a Box from it and the relevant publication details (attached).

5. It may be of interest to note that the Indian audience, which as I said focused mainly on Chapters 1, 4 and 5, did not see any disparities between the WDR and the Food Security paper. In fact, one of the articles following my New Delhi seminar brought out their complementarity (attached).

6. It was also pleasant to hear from my own network of economist friends. All the consultants who did so much work for me are very happy with the way the Report has come out — Domingo Cavallo, Yair Mundlak, Arnold Harberger, Gale Johnson, Ulrich Koester, Bruce Gardner, Alan Winters, Rodney Tyers, Kym Anderson, Scott Pearson, et al. But many others have also called or written to me. Just a few examples should suffice. Nurul Islam of FAO regards Chapter 6 as the best available synthesis of OECD policies. Amartya Sen, who read successive drafts as well as the final cover, says the Report is very good. Milton Friedman, who is somewhat skeptical about the Bank, writes: "On the whole, I am never very optimistic about what can come out of these major national or international governmental agencies, but every now and then there is a very pleasant surprise as there is in this case. Keep up the good work."

7. In summary, I am happy with the attention that the Report has received. I hear that it was well-received in the GATT meeting in Uruguay. I do believe that many readers would agree with the Development Committee

statement by Nigel Lawson, Chancellor of the Exchequer in the U.K., which said, "There has been widespread and deserved praise for this year's World Development Report, with its penetrating analysis of the effects of agricultural policies throughout the world."

8. Attached are a list of my seminars and the press clippings referred to above.

Attachment
AR/ntb
cc: Messrs. Botafogo-Goncalves, VPE
Vogl, IPADR; Sankaran; IPAPA

Seminars on the World Development Report 1986

Month	Location	Duration	Organizing Institution
June/July	Paris	3 hours	World Bank office
	London	2 hours	ODI
	Brussels	3 hours	Center for Policy Studies
	Bonn	1 hour	World Bank office
	Rome	2 hours	World Bank office
August	Delhi	3 1/2 hours	World Bank office
	Madras	4 hours	IFMR
	Bombay	2 hours	ICICI
	Calcutta	2 hours	IIM
	Manila	2 hours	Philippine Economic Society
	Bangkok	5 hours	Board of Trade, Chamber of Commerce, and TDRI
September	Bologna	3-day conference	NOMISMA
	Canberra	2 hours	Australian Development Bureau
	IMF Institute	2 hours	IMF

N.B. Other seminars in which I did not participate were conducted in Brazil, Malaysia, Indonesia, Sri Lanka, Geneva and Trivandrum (India).

Attachment 2

Selected Clippings

Publication	Date
London Times (3 items)	July 8, 1986
TLS	October 10, 1986
The Financial Express (India)	August 2, 1986
Business Standard (India)	August 24, 1986

This news item appeared on page 17 of the July 8, 1986 issue of:

THE TIMES (U.K.)

CAP in the air

The lunacies of the Common Agricultural Policy and its like are familiar to frustrated policymakers at home and to connoisseurs of Euro-American trade skirmishes. Likewise development economists know well enough how developing countries have treated traditional agricultural export sectors as milch-cows to finance pet industrial projects and appease the urban populace. Frequently, they have ruined the naturally strongest part of their economies

The World Bank has done a useful service in bringing these two together in a single and devastating study of costly worldwide meddling. For the combination amounts to a scarcely believable misallocation of resources.

"What is perhaps most surprising" Anandarup Ray and his co-authors coolly note "is that it is the developing world which, on the whole, discriminates against its farmers, even though they account for large shares of gross domestic product and export earnings. And it is the industrial countries which provide subsidies to agricultural production, even though their farmers account for small shares of GDP and employment".

Even if the damage to world trade and to the growth of developing countries is recognized, however, it is going to be extremely hard to coordinate international agreements to start dismantling the edifices of distortion, if only because agricultural policies are so important domestically.

Here, the developing countries are making a better fist of putting their own house in order than the European Community, North America and Japan. Lessons have undoubtedly been learnt from the success of Asian agriculture, mostly recently in China, and the contrasting failures in West Africa, the Caribbean and South America. Pressure from the the IMF or the World Bank has also helped break down food subsidies and hopelessly damaging state marketing that has pushed so many farmers off the land or into illegal parallel markets.

Nearer home, prospects for reform look bleaker. Mrs Thatcher failed to exploit leverage over the European Community budget to bring much reform to the CAP and Britain has gone along the quota road.

Executive Editor Kenneth Fleet

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This news item appeared on page 18 of the July 8, 1986 issue of:

THE TIMES (UK)

WORLD BANK DEVELOPMENT REPORT 1986

Farm support policies 'hurt both rich and poor nations'

By Graham Searjeant
Financial Editor

Perverse policies towards agriculture and trade in food in both industrial and developing countries lead to a misallocation of resources, the World Bank argues in a study of agriculture in its 1986 world development report. As a result, "there is too much production in industrial countries and too little in developing countries," the report says. This stifles economic growth in developing countries because agriculture is much more important to them. The next round of negotiations of the General Agreement on Tariffs and Trade (Gatt) provides the opportunity to break this cycle by liberalizing trade in food. Free trade would benefit industrial and developing countries by $64 billion a year, the Bank estimates, and benefit Third World agriculture far more than trade preferences, international commodity agreements or other special measures.

The World Bank has launched a devastating attack on the Common Agricultural Policy and its equivalents, estimating that farming support and protection is costing taxpayers and consumers in the industrial countries of the OECD more than $100 billion a year.

But the Bank's study of trade and pricing policy in world agriculture concludes that only about half this cost benefits producers.

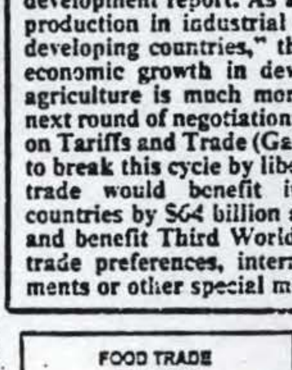
Most of the benefit ends up in higher land prices, rents or artificial values for production quotas, rather than helping farmers' incomes in the long run. And that makes it much harder for people to enter the industry.

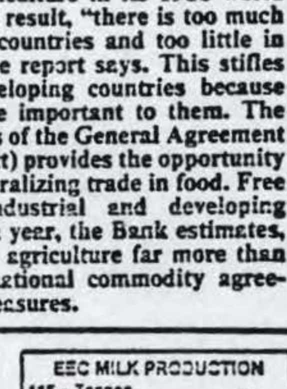
Rich countries' agricultural policies also hurt farming in virtually all developing countries. Regimes such as the European Economic Community's Common Agricultural Policy have raised output uneconomically at home by maintaining artificially high prices which reduce the demand for food. The Bank estimates that producer prices in industrial countries now average 40 per cent above world prices, a far bigger gap than in the Sixties.

This combination has depressed free market prices, especially for the developing countries, because the industrial countries also import less and subsidize their own exports, even undercutting developing countries' farmers in their own markets.

Protection has therefore directly cut exports and output in developing countries where agriculture is much more vital to economic growth. In low income developing countries, agriculture accounts for 35-40 per cent of gross domestic product.

Policies designed to stabilize domestic prices also lead to much greater fluctuations





in world prices, most notably in the most heavily protected areas such as dairy farming, sugar and beef. And even greater protection has developed for processed food products, making it harder for developing countries to add more value to their food exports.

The report, written by a team headed by Mr Anandarup Ray, formerly the World Bank's senior economist for Latin America, charts the increasing cost, protection and complexity of policies in the EEC, North America and Japan as price support policies have boosted production beyond depressed consumption levels.

"It is difficult to change a policy even if its failure can be demonstrated. Instead, a new policy is introduced to offset its shortcomings," the report argues.

"During the 1970s, improvements in milk yields reduced dairy costs below official milk support prices, which were actually raised. Governments found themselves flooded with milk surpluses and spending soared, increasing sixfold in the EEC and fivefold in the US between 1974 and 1984. Instead of lowering prices and letting consumers benefit from the technical progress, however, governments have attempted to limit the amount of milk sold at guaranteed prices."

The support regimes have become ever more complex and costly as new policies are added to counteract surpluses. This has produced consequences in other developed countries as bizarre as in the European Economic Community.

- In the US, the federal government subsidizes land clearance and then pays farmers not to grow grain.
- In Japan, rice farmers receive three times the world price but some of their crop has to be sold as animal feed at half the world price.
- In Canada, production quotas are so tight that farmers will pay up to eight times the market price of a cow for the right to sell that cow's milk at the government support price.
- The biggest gainers from the support policies in free market industrial economies are the countries of Eastern Europe.

The report argues that stabilizing prices to protect farmers does not require policies of self-sufficiency, but could be achieved by support prices which reflect world prices more closely.

Support for farm incomes also ignores the increasing trend towards part-time farming among the smaller high-cost producers. Net farm income as a proportion of farmers' total income has fallen to about a third in the US and to a quarter in Japan. Small farmers could therefore be supported by much less general and much less costly policies.

Domestic policies in industrial countries have as great an effect on developing countries as do direct import tariffs and quotas.

If industrial and developing countries simultaneously liberalized domestic policies and removed trade barriers, industrial market economies would gain $46 billion a year and developing countries $18 billion a year in temperate-zone products alone, the study estimates.

Developing countries would gain much more from liberalization of trade in tropical products and processed foods, far outweighing all the financial aid they now receive.

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This news item appeared on page 18 of the July 8, 1986 issue of:

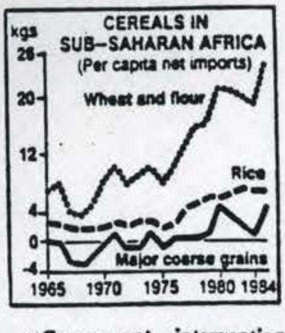
THE TIMES (UK)

Third World 'must exploit advantages'

Inefficient tax, subsidy and public spending policies in developing countries have centred on agriculture because it is the biggest component in output, because food costs are the most vital ingredient in urban poverty, and because governments wanted to discriminate in favour of manufacturing industry, the World Bank argues.

Third World countries have damaged their own farming industries, where they have a natural trade advantage, as much as industrial countries have artificially supported relatively unimportant farming sectors.

Farming productivity has risen so fast in industrial countries as a result that the average farm family produces enough surplus food for 50 other people, whereas the typical farming family in low-income developing countries produces enough to feed only two others. The yield gap between the most efficient producers — Britain in wheat, the US in maize and Japan in rice — and the least efficient has grown significantly in the last 20 years.



"Government intervention at all stages of production, consumption and marketing of agricultural products and inputs has frequently inhibited the growth of rural incomes," the report says. It lists a series of policies that have unintentionally damaged agriculture:

- Promoting industry behind tariff barriers raises costs to farmers but lowers profit rates compared to industry, encouraging poor farmers to migrate to the cities.
- Governments maintain overvalued currencies, usually protecting industry with import barriers but exempting food imports.
- Traditional food exports have been heavily taxed, sometimes as high as 50 to 75 per cent. For instance, such policies cost Ghana most of its share of the world cocoa market until recent reforms. Similar fates have befallen Egyptian cotton, Sri Lankan tea and West African palm oil. Countries that have encouraged newer agricultural sectors — tea in Kenya, palm oil in South Asia — have benefited.
- Farm output is often bought through monopoly state marketing boards which give farmers lower prices than those paid to importers for competing products to subsidize the towns.
- Price stabilization schemes are inefficient and paid for ultimately by farmers.
- Subsidies for farm credit, fertilizers and machinery mainly benefit richer farmers.

Such policies reduce production and deter small farmers from investing in higher productivity. Discrimination against agriculture has left sub-Saharan Africa as the only region in the developing world that has failed to expand food production as fast as population in the past decade.

As a whole, agricultural exports have declined from nearly half of developing countries' export earnings in the Sixties to around a fifth today.

The World Bank also notes that most famines are caused by depressed rural families having no money to buy food when crops fail, rather than by absolute nationwide shortages.

The World Bank concludes that agriculture should be playing a much bigger role in the economic growth of developing countries and that countries such as China and Turkey have shown the dramatic effects of reducing government interference and relying more on markets.

Developing countries should also exploit their comparative advantage rather than ape the industrial countries' drive to agricultural self-sufficiency.

Taxes now levied on farmers' output, either explicitly or through state purchasing policies, should be replaced by taxes on land and incomes or general consumption taxes that are paid by the better-off.

Food subsidies need to be carefully targeted at vulnerable groups and public spending concentrated on rural infrastructure, research and other aids to farmers.

"As these reforms take place" the report concludes, "economic growth will increase and facilitate sustained progress towards food security — that is the eradication of poverty, malnutrition and the periodic occurrence of famine."

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Food insecurity: From Adam Smith to Amartya Sen

The Financial Express, August 2, 1986

By K. S. Ramachandran

THE central theme of the World Development Report (WDR), 1986, of the World Bank is food insecurity. No wonder, there are references to the Malthusian pessimism about prospects for food production in Africa and Adam Smith's prophetic words in 1776 on famine.

The Malthusian thesis itself has only limited relevance to Africa's record in agriculture. No doubt, growth in population has outstepped increase in food production, but scarcity of food (particularly wheat and rice) in parts of the region has been due not so much to want of technological improvements by farmers as what the WDR describes as "bias against agriculture".

The report strongly disputes a widely-held view that the region's food problem was due to over-emphasis on non-food crops and also that supply responses in Africa were low.

Nevertheless, the fact remains that several parts of the region are experiencing severe famine conditions. In this context, the observations of Adam Smith more than two centuries back are pertinent, regrettably, one might say. It would have been better that, like Malthus, the author of 'Wealth of Nations' had been proved wrong.

Adam Smith attributed starvation to decline in unemployment and real wages, a conclusion reached by Dr. Amartya Sen in 1981 and again in 1986. WDR points out that the proximate cause of the Bengal famine of 1943, the Ethiopian famine of 1973 and again the disaster in Bangladesh in 1974 was decline in employment and real wages. It says that there was no great reduction in food availability. Indeed, total food per head was at a peak during the Bangladesh famine.

The report is being candid when it concedes that free distribution of food, might be a straight-forward solution to the immediate problem of starvation. But this is by no means the answer to a lack of purchasing power, granting that this was the main factor behind famine.

In Africa, consumption of food grew at only 2.6 per cent annually between 1971 and 1984 while population grew by 2.8 per cent. But consumption generally in developing countries grew at 3.5 per cent a year in the same period, against a population growth rate of two per cent. For the world's 36 poorest countries (26 of them in Africa), the level of per capita food consumption declined by about three per cent during the seventies. This, no doubt, underscored the magnitude of impoverishment in these countries.

The World Bank study, "Poverty and hunger: Issues and options for food security in developing countries" (1986), defines food security as access by all people at all times to enough food for an active and healthy life. Food insecurity is classified as chronic and transitory. In its chronic form, insecurity represents inadequacy of diet due to economic inability to acquire it. This is a malady which afflicts households that persistently lack the ability either to buy enough food or produce their own requirements.

Transitory insecurity is a temporary decline in a household's access to the required quantity of food. It results from instability in food prices, food production or household incomes. When this becomes acute, conditions of famine might emerge.

Reverting to Adam Smith, in a situation of economic decline, he wrote, "demand for servants and labourers" could go down sharply and "many who had been bred in the superior classes, not being able to find employment in their own business, would be glad to seek it in the lowest," so that "the competition for employment would be so great in it, as to reduce the wages of labour to the most miserable and scanty subsistence of the labourer. Many would not be able to find employment even upon these hard terms, but would either starve, or be driven to seek a subsistence either by begging, or by the perpetration perhaps of the greatest enormities. Want, famine and mortality would immediately prevail in that class, and from thence extend themselves to all the superior classes".

But it is doubtful if governments of developing countries have responded to the need to generate growth in rural employment and incomes with the urgency warranted by the present magnitude of poverty. In India, easily one of the most advanced members of the third world, despite more than three decades of development planning growth, initiatives are still to make a deep impact on poverty.

Even accepting the Planning Commission's claim that the number of people below the poverty line had been brought down to 37 per cent of the total population by 1984-85, the fact remains that it had taken six plan periods and more than 30 years of sustained development efforts to do this. Going by Seventh Plan projections, it will take three more five-year plans to lift all but five per cent of the population above the poverty line by end of the century.

IN the wake of efforts to rush emergency food aid to African countries facing severe famine and adoption of an appropriate long-term programme by the U.N. General Assembly, the Adam Smith-Amartya Sen thesis that lack of purchasing power is the root cause of famine assumes considerable significance.

No doubt, from a deficit we have moved to a surplus in foodgrains. Indeed, the stockpile is so large that it poses serious problems of storage and transportation. Holding these stocks is proving to be expensive to the Government. The revised estimate of Central subsidy on foodgrains for 1985-86 was Rs 1,650 crores, an increase of 50 per cent over the budget estimate. The budget estimate for the current financial year is Rs 1,750 crores, but at the pace the bufferstocks of foodgrains are growing this is certain to be exceeded.

If 37 per cent of population remained below the poverty line during 1984-85, the terminal year of the Sixth Plan, obviously conditions of chronic food insecurity existed. The Adam Smith-Amartya Sen thesis that lack of purchasing power was at the back of famine thus stood vindicated.

The Government was decidedly slow in responding to the malady and its decision to make available foodgrains at concessional prices to people covered by the integrated tribal development projects and enlarge the scope of rural landless employment guarantee programme and national rural employment programme through releases from bufferstocks of foodgrains was a belated one. May be, it was prompted more by difficulties in managing the stockpile than the fact that a good part of the population simply did not have the requisite wherewithal.

In China, which likewise has moved from a deficit to a surplus in food, certain areas experience the most serious form of rural poverty. The World Bank report on China released in September 1985 referred to the Dongxe township in Dingxi country. The township's best-ever year for agricultural production was 1983, but in that year the per capita income was about one-sixth of the national rural average.

The report conceded that many such impoverished areas would "benefit absolutely, and some relatively, from reform of the economic system - this appeared to be the reason why the production responsibility system had not yet generated the anticipated increase in overall rural income inequality", but warned that "others would tend to remain poor and could even become worse off, especially if they were remote or had meagre land and water resources".

If economic disparities are at the root of food insecurity, the policy focus in developing countries should be on employment-oriented growth. But, this, unfortunately, is not so. Mention was made earlier of WDR's assessment that in African countries "a bias against agriculture" existed. It naturally followed that in these countries no thought was paid to generation of new employment opportunities in the rural sector. After all, where development of agriculture itself was a low priority, efforts to promote new employment and income could hardly be an aspect of the growth strategy.

WDR observes with evident regret that, "many countries that have been stressing the importance of agricultural development have established a complex set of policies that is strongly biased against agriculture." It says, "most developing countries pronounce self-sufficiency as an important objective, but follow policies that tax farmers, subsidise consumers and increase dependence upon imported food."

The report shows how differential protection given to industry lowered the profitability of agriculture in an number of developing countries (See table).

The third world is unlikely to agree with WDR's assessment that appreciation of real exchange rates was a factor in the unsatisfactory performance of the agricultural sector especially in countries of the Sub-Saharan region of Africa. But the report's finding that agricultural product prices generally and export goods in particular declined as a result of appreciation of real exchange rates cannot be dismissed lightly.

Generally, there are flaws in the standard prescription of devaluation of currencies of developing countries by the World Bank and IMF, as noted earlier in these columns. But if the Sub-Saharan African countries, where food insecurity is most acute, either have deliberately let their currencies appreciate or just failed to correct a persistent over-valuation, despite the fact that such a policy (or neglect) more than wiped out the impact of incentives given to farmers, especially growers of export crops, this is something that must be attended to with a measure of urgency.

Tracing the sources of bias against agriculture, WDR says that pursuit of a strategy of promoting industrial development through generous protection has meant raising the prices of industrial import substitutes relative to prices of agricultural import substitutes as well as exports.

Prices of protected farm inputs were also pushed up. Farm exports were themselves subjected to hefty taxation. Procurement of foodgrains at low prices in the interests of urban consumers was yet another source of bias.

Remunerative pricing for farm goods could go some way towards assured food security if care was taken to see that the gains to farmers were reflected in creation of additional employment and incomes. If the farming community takes advantage of incentives to increased production and exports through mechanisation and without taking in additional labour the problem of food insecurity would remain. This would be so also where farm wages rise proportionally less then grain prices. After all, purchasing power is a function of both nominal wages and essential commodity prices.

Thus, both gainful employment and stable prices of mass consumption or wage goods are crucial to adequate food security or avoidance of food insecurity.

PROTECTION OF AGRICULTURE COMPARED WITH MANUFACTURING IN SELECTED DEVELOPING COUNTRIES.

Country and period	Year	Relative protection ratio *
In the '60s		
Mexico	1960	0.79
Chile	1961	0.40
Malaysia	1965	0.98
Philippines	1965	0.66
Brazil	1966	0.46
South Korea	1968	1.18
Argentina	1969	0.36
Colombia	1969	0.40
In the '70s & '80s	1974	0.76
Philippines	1978	0.19
Colombia	1980	0.65
Brazil+	1980	0.55
Mexico	1980	0.35
Nigeria	1981	0.57
Egypt	1981	0.55
Peru +	1981	0.77
Turkey	1982	1.36
South Korea +	1983	0.65
Ecuador		

* Calculated as (1 + EPR_a)/1 + EPR_m), where EPR_a and EPR_m are the effective rates of protection for agriculture and the manufacturing sector respectively. A ratio of 1.00 indicates that effective protection is equal in both sectors; a ratio greater than 1.00 means that protection is in favour of agriculture.
+ refers to primary sector.
Source: World Development Report, 1986, World Bank.

SUNDAY MAGAZINE

[FIVE] BUSINESS STANDARD SUNDAY 24 AUGUST 1986

World Bank's worldview

Anirban Chattopadhyay interviews Anandarup Ray, leader of the team that prepared the World Development Report 1986 of the World Bank

Q: The World Bank, in its World Development Report, recommends liberalisation of economic policy in developing countries. The present government of India has introduced a number of policy liberalisations. How far do you consider these policy changes in line with the World Bank's prescriptions?

A: I am not a specialist on India. I am not aware of the details of Indian economic policy.

Secondly, the World Development Report is not concerned with the specifics of policy priorities in different countries. It surveys the general policy issues and priorities from a global perspective. It indicates the main types of policy options that should be carefully examined in the light of experience across countries during the past few decades.

Q: In developing the general policy priorities in this Report, what type of objective function have you used?

A: We are looking at the deficiencies of agricultural policies throughout the world. The first point is that regardless of policies in industrial countries, the developing countries as a group—and also individually—can do better by liberalising their economic policies towards agriculture. The same is true for industrial countries. They lose a lot themselves because of their existing policies, hence they can gain substantially from reforms. The best scenario, of course, is when all of them simultaneously improve their policies. In that case, the total gains are maximised. It is important to note that the gains are additive—all countries will gain together. For example, if Japan liberalises the import of rice, then all exporters, like Thailand, will gain; and at the same time the Japanese economy will also gain.

Q: According to some analysts, the World Bank's recommendations for higher farm prices in developing countries and for freer trade in farm products are designed to benefit industrial countries. For, if these recommendations are followed, then the industrial countries would be able to export more of their surplus farm products to developing countries and at more profitable prices. What is your opinion about this allegation?

A: There must be a serious misunderstanding on this issue. Higher prices of farm products in developing countries can only raise agricultural production there. If, with suppressed farm prices, developing countries are importing farm products from industrial countries, then higher farm prices can, by stimulating domestic production, only reduce the imports.

In fact, as shown in Chapter One of the Report, the food balance of trade has gone sharply against developing countries in the past five or six years. [See Figure 1.] With better policies and higher production developing countries will import less and export more.

Q: It may appear from your World Development Report that you are speaking against any taxation on agricultural income. Are you saying that there should be no taxation?

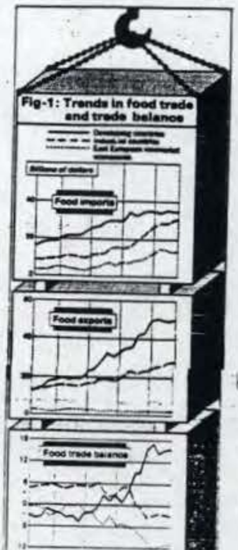
A: We are not against agricultural taxation as such. In certain countries agriculture is a very large tax-base and should be taxed. But we are saying that the method of taxation should be right and that the marginal rate of tax should be reasonable. When you see, for instance, export tax to the order of 50 per cent, it cannot be good for anybody.

It should also be noted that long-run considerations in agriculture are very important—as illustrated from the cases of Argentina and Chile in the Report. Sustained taxation of agriculture over a period of time can have devastating effects. Studies which emphasise low costs of taxation—because of allegedly low supply responses (crop-specific or aggregate)—seem to ignore two points. First, the costs can be high even with low responses if the tax rates are high.

Second, these studies typically fail to capture the medium to long-term effects in a general equilibrium context. Technical progress, for example, does not occur exogenously. Good policies induce it and bad policies retard it.

Q: The Report observes that input subsidies (e.g. subsidies on fertiliser) are often cornered by relatively rich farmers. Given the unequal distribution of land and the consequent concentration of marketable surplus in the hands of a small section of farmers, won't the benefits of higher price also be cornered by these relatively rich farmers?

A: This is a question that can be answered in a definite manner only in a specific country context. It is clear, however, that



if the producer price of a commodity rises, all farmers—large or small—will benefit. Conversely, if the price is suppressed then all farmers producing the commodity will lose. On the other hand, if input subsidies are specific to certain groups of farmers, then only those groups are partly compensated for low output prices. So on that basis increasing farm prices would be a better policy from a distributional point of view.

Q: But, for wheat in India input subsidies have played a useful role behind the rapid growth of output.

A: Whether the subsidies were needed or not is a debatable point. One has to know a lot of details to judge that. But one thing is clear: in general, if an input is in short supply, then charging an artificially low price for it does not really help the large number of farmers who suffer from the shortage.

Q: In the Report, you have analysed the costs of protection on agricultural commodities exercised by industrial countries. You have given estimates of, mostly, aggregate costs. Can one get the disaggregated estimates, for instance, the costs borne by agricultural labourers, by middle-income farmers by marginal farmers etc.?

A: In estimating the cost of protection, we have drawn on the quite voluminous literature on the situation in Europe, USA and other industrial countries. If one consults that literature one can get many details. [See Table 1]

In some cases we have, in our Report, also talked about the distributional issues. In industrial countries, most of the benefits of protection get capitalised in land values. Therefore, the major beneficiaries of protection are generally the big landlords who were lucky enough to invest in land some years ago. Marginal farmers are not the gainers. In fact, because of factor mobility, rates of return tend to get equalised at the margin. And, marginal farming is dominated by part-timers.

Q: What about the costs of the faulty policies in developing countries?

A: Most of the costs of excessive taxation (or anti-protection) which developing countries impose on their farmers may be capitalised in terms of falling "land-values"—I mean, lack of incentives for farmers to maintain their soil, to take measures against soil erosion etc. can reduce the profitability of land. I think increasing farm prices will increase production and yield. Continuing farm support over a long period would generate technical progress. That would be a better situation than the present one of suppressing farm prices and profitability.

Q: How about the implications of higher farm prices for agricultural labourers?

A: Let us be clear about the context in the Report. As it shows, discrimination against agriculture has been extremely high in some countries—especially in Africa—during the seventies and the early eighties. There is little doubt that this discrimination has hurt all groups in rural areas where, typically, most of the poverty and malnutrition is concentrated. Thus, this discrimination has neither been good for the efficiency of resource allocation nor has it helped the cause of poverty redressal.

Q: But [illegible] countries [illegible] about the impact of higher farm prices on landless labourers in a country like India?

A: First, I doubt if economic policies in India have discriminated against agriculture as seriously as in the types of economies mentioned in the Report. If so, I am sure the degree of discrimination has been much less. But as a general rule, it is hard to see how landless labourers can benefit from excessive taxation of farm products. A vibrant rural sector—with increasing farm incomes—is likely to help them more through the generation of additional farm and off-farm employment. While I am aware of some of the research in process on this issue in India, I am yet to see definitive results that allow for off-farm activities and chart the long run properly.

Q: Do you think increasing farm prices would, by causing agricultural growth, always help reducing the burden of poverty? In other words, would growth per se lead to the reduction of poverty? If not, then would special food subsidy programmes not be essential, especially in the short run?

A: I shall try to answer this question in three parts.

First, it is of course very difficult to measure such things as poverty and chronic malnutrition.

But the facts about poverty are obvious. No matter how you measure, hundreds of millions in developing countries are very poor. All countries should be extremely concerned with the redressal of poverty and malnutrition. This is why it is worth stressing that the policies in the industrial countries as well as in many developing countries have inhibited the growth of rural income, thereby exacerbating rather than reducing the problem.

Secondly, in my view, if you consider the long run, then a good resources allocation policy and a growth-oriented outlook will no doubt benefit the poorer sections; and that is the only way they can be benefited in many developing countries. In a situation where per capita income is not going up, or is going up at a very slow pace, a growth-oriented policy is absolutely essential. Under such circumstances, even when there is a trade-off between poverty redressal projects and growth-oriented ones—if such a trade-off exists at all—the decision should be in favour of growth-oriented projects. In any case, such a trade-off may be overestimated. For, many so-called socially-oriented projects (like nutrition programmes, primary education schemes etc.) have also very good implications for resource allocation; they lead to investment in human capital. Many of these projects may be justified for the very purpose of economic growth.

Thirdly, the typical problem with food subsidy programmes—especially the urban food subsidy programmes—has been that they get out of control. They are difficult to change for political reasons and can easily become unaffordable, leading, for example, to inflationary financing or to extremely unfavourable policies towards producers of foodcrops to ensure cheap procurement. A country's ability to manage short-run stabilisation programmes—for example, control of the fiscal deficit—can be seriously jeopardised by such programmes. Well-targeted and relatively modest programmes make more sense from both the short-term and the long-term points of view.

Q: *Does not successful operation of the socially-oriented programmes require a strong public distribution system?*

A: There are many varieties of public distribution system. There can be many objectives of it. And there are many possible means of running public distribution system. So one has to discuss specific cases of public distribution to give judgement. But one can say in general that in many countries the extent of the public sector's involvement in marketing agricultural products has gone far too far. In the case of Africa and elsewhere too, parallel markets have emerged in markets for agricultural products. And that is not good for the economy nor for the government sector.

In the case of social orientation, one has to examine the incidence of food subsidies very carefully. Because urban food subsidies can be and have been in many cases extremely general. Commitments to provide food subsidies are very difficult to change, specially because the schemes are often designed in an inflexible manner. So if one is having a food-subsidy system to redress poverty, it is extremely important to examine all means of making the subsidies very well targeted. It is not an idle issue, because one has seen how unmanageable general subsidies can become.

[For the relative magnitudes of food subsidies as a proportion of total government expenditure in a few developing countries in recent years see Figure 2.]

Q: *Can one say, then, that the World Bank's basic objection is not to the principle of food subsidy schemes but against the manner in which they are usually operated?*

A: Yes, in the Report, we have discussed a special economic assistance programme in Tamil Nadu. [See Box 1.] This is a specially targeted programme which seems to have worked rather well. We think programmes of this type are very useful—not just for poverty removal but also for increasing the productive capacity of the country.

That much said, if you take a specific change in policy in a specific country under specific circumstances, you may have to define all sorts of other measures with it. One must be sure that the general economic policy is conducive to the cause of food security. Often the general policy is not so conducive. Suppression of agricultural prices, for instance, suppresses rural income and thus intensifies malnutrition most of which occurs in villages.

Then there is the question of fine-tuning. If you make agriculture more profitable, at what speed will the benefits accrue to the most vulnerable groups? Will supplemental targeted food security programmes be necessary? If so, then what will be the required scale of these programmes? Lots of questions would have to be answered. But first you have to make rural activities profitable.

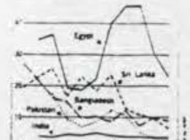
Q: *Since you are concerned particularly with the development of Latin American countries, I would like you to tell me about the present agricultural situation in Latin America.*

A: It is difficult to generalise for such a vast continent. Situations differ from one country to another. In Brazil, for instance, agriculture is mostly export agriculture, though wheat is imported. Therefore, overvaluation of exchange rates, quotas and trade preferences etc. have a tremendous bearing on agriculture.

In Mexico, to take another example, major food products are imported. Producers of farm products were being taxed till a few years ago. The situation may have been rectified by now.

Then there are a large number of small economies, particularly badly hurt by imperfections in the sugar market that have caused sugar prices to fall.

Fig-2: Food subsidies as a percentage of total govt. expenditure in selected developing countries



Q: *This is mainly due to protectionist policies of industrial countries, isn't it?*

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A: Yes, the price of sugar in USA is several times as high as the border price. Incidentally, people were reportedly exporting chocolates to USA to be melted down and get the sugar resold there. It is incredible. If you ask me what are the priorities in terms of reforming the policies of industrial countries, first I would say "Sugar". For island economies like the Dominican Republic and also for larger economies like Mexico, sugar is very important. Mexico used to depend a lot on its sugar export. Now it has lost that export.

Q: *But then, unless industrial countries reform their policies, are not the developing countries in a helpless situation?*

A: Individually, a developing country cannot do anything about world market prices, except for a few special cases. The developing countries can only enter into preferential agreements.

Q: *Which really constitute a part of the protectionist framework?*

A: Yes.

Q: *So, won't the initiative towards trade liberalisation have to be taken by industrial countries? They are the dominant partners, after all.*

A: There is a crisis in world agriculture. There are too many sellers, too few buyers. The cost, in terms of national income foregone, is very high in industrial countries. These issues are very important for developing countries. Given that, multilateral discussion is an appropriate way of trying to resolve the crisis. The GATT negotiations due to start next month provide an opportunity for multilateral discussion.

Q: *How far are the World Bank's prescriptions for liberalisation politically feasible?*

A: There has never been complete free trade in agriculture, except for the period of 20 years after the repeal of corn laws in the early nineteenth century. On this basis it is safe to conclude that to move from here [protections] to there [free trade] is a long run objective. The reform is politically feasible but not a likely scenario in the short run. In terms of the general methodological approach, we have constructed some free trade scenarios. We have tried there to bring out the costs and the benefits of correct policies. These give you a benchmark with reference to which you can judge priorities for international activities (e.g. commodity agreements, special trade preferences etc) versus moving towards free trade. The Report suggests that trade liberalisation would accomplish far more lasting benefits to all groups of countries rather than having ad hoc protection measures.

Radical changes may not be immediately needed. For instance, suppose protection on sugar is not eliminated but is just reduced. Suppose price of sugar in USA which is kept much above the border price is just halved. That will bring tremendous benefits to developing countries. What is more, industrial countries themselves will be benefited. At least in terms of groups of countries, you have a case for trade liberalisation which almost satisfies the Pareto criterion, i.e. which makes at least one group better off and no group worse off.

Q: *But to achieve that, multilateral action is essential.*

A: Yes, because it is a complex game. In fact, some developing countries may lose in the short run. But gains for others will be large enough so that with marginal tinkering of aid flows and adequate reform of domestic policies, trade liberalisation would lead to a Pareto improvement.

Table 1

Effects of selected nontariff barriers in the clothing, automobile, and steel industries

(millions of dollars, unless otherwise noted)

Effect	Clothing: United States, 1980	Clothing: EC, 1980	Automobiles: United States, 1984	Steel: United States, 1985
Efficiency loss in the protecting country	1.509	1.409	2.192	1.992
Increased payments on imported goods	988	1.050	1.778	1.530
Loss of consumer surplus on imports	408	289[a]	229	455
Resource cost of producing the additional quantity domestically	113	70	185	[illegible]
Jobs saved through protection (thousands)	8.9	11.3	45.0	28.0
Efficiency loss per job saved (thousands of dollars)	169.6	124.7	48.7	71.1
Average labor compensation (thousands of dollars per year)	12.6	13.5	38.1	42.4
Ratio of efficiency loss to average compensation	13.5	9.2	1.3	[illegible]
Lost revenues for exporters	9.328	7.460	6.050	1.508
Ratio of increased payments on imported goods to lost revenues for exporters	0.11	0.14	0.29	1.01

Note: The nontariff barriers are: for textiles, the Multifibre Arrangement; for automobiles, the voluntary export restraint (VER) agreement between the United States and Japan; and, for steel, the VERs between the United States and major supplies.
a. Excludes tariff revenues forgone because of quotas.
Source: Kalantzopoulos, "The Costs of Voluntary Export Restraints" (background paper).

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Report resumé

The World Development Report 1986 is the ninth in the series of annual assessment of development issues by the World Bank. The text of this year's report is divided into two parts. Part I, in two chapters, examines the way the world economy has performed since 1980, looks at the prospects for the next ten years and explores the policies required to achieve sustained growth across countries. Part II, in five chapters, discusses in detail the problems and prospects of agriculture in different countries. In particular, it explores the connection between government policy and agriculture and emphasises the interdependence of agricultural policies in different parts of the world. Thus, as the introductory chapter states in the very beginning, "agriculture and economic growth are the subjects of this World Development Report"

According to the assessment of the World Bank, the recovery of the world economy from the 1980-82 recession has been, and continues to be, hesitant. Except for the United States and Japan in 1984, expansion in the industrial countries has been slower than in the early years of past recoveries. On the other side of the world, many of the developing countries are facing serious problems of adjustment. Although the recent declines in oil prices, real interest rates and inflation will provide a useful stimulus to industrial and developing countries, many heavily indebted developing countries will, according to the Report, find it difficult to maintain growth in the near term.

According to the Report, with increasing interdependence of the economies of the world, future prospects for the world economy depend upon the policies that both the industrial and the developing countries adopt. For both the industrial and the developing countries the World Bank prescribes policy reforms that would promote competition, free trade and specialisation according to comparative advantage. In particular, the Report calls upon the industrial countries to reduce their budgetary deficits and real interest rates, scale down protectionist barriers to imports and keep real wages reasonable.

The developing countries, on the other hand, are advised to take measures that would increase domestic savings, allocate resources more efficiently and raise the productivity of the existing capital stock. Some of the specific policy measures recommended include reduction of budget deficits, maintaining stable exchange rates, improvement of pricing policies so as to stimulate the efficiency of both public and private sector plants etc.

The World Development Report describes two possible scenarios for the world economy in the next ten years. One is the High Case scenario that will be realised if the industrial countries reform their policies according to the recommendations of the Report and the other is the Low Case scenario that will be realised if the industrial countries do not reform their policies. The developing countries are assumed to reform their policies moderately in both scenarios. The important point to note is that in the High Case both the industrial and the developing countries will enjoy higher growth rates than in the Low Case.

In Part II of the Report, the World Bank analyses major defects in the agricultural policies in both the industrial and the developing countries. Many of the developing countries are criticised for pursuing a "complex set of policies that is strongly biased against agriculture". Some impose taxes directly on agricultural exports, some pay their producers half the world price for grains (or even less), some follow macroeconomic and exchange rate policies that depress real producer prices, some charge high prices for manufactured inputs of agriculture. All these measures effectively imply discriminatory and often exorbitant taxation on agricultural income. These policies act as disincentives for farmers, depress agricultural output and productivity and exacerbate the food shortage in developing countries.

The industrial countries, on the other hand, provide huge subsidies to their farmers. "In the United States, the government pays farmers not to grow grain in the European communities, farmers are paid high prices even if they produce excessive amounts. In Japan, rice farmers receive three times the world price for their crop; they grow so much that some of it has to be sold as animal feed—at half the world prices.

World Development Report 1986 (Published for The World Rank by Oxford University Press, Indian price Rs 35.)

All these amount to substantial protection for farmers. Support of farm incomes has no doubt contributed to rapid technical change and higher production. But the protectionist policies have outlived their necessity and have gone to such an extent that many industrial countries now face the problem of 'how to counteract excessive production while maintaining farm incomes at politically acceptable levels.

These protectionist policies cause excessive farm production that can be sold in the world market—if it can be sold at all—only at huge subsidies. These policies also lead to the transfer of income from consumers and taxpayers to farmers and landowners. Besides, artificially high food prices mislead producers into using too many resources for producing food—resources which could be better used to produce something else. All these constitute heavy costs of protection for industrial countries themselves—costs in terms of losses of efficiency and real income.

Developing countries also have to bear heavy costs of protection given to farmers in the industrial world. Excessive farm output and depressed domestic demand in industrial countries lead to the reduction of world prices of farm products. By creating various forms of trade distortions in the area of farm products, the industrial countries make matters worse for the agricultural producers of these products in the developing world.

The recommendations of the World Bank for agricultural policy reforms follow from this analysis of the defects of the present policy. While developing countries are advised to provide remunerative prices to their farmers, the industrial countries are called upon to reduce the costly protection given to their farmers. At the same time, the Report lays stress on necessary reforms of economy-wide policies and development strategies. It emphasises the role of multilateral negotiations to enforce in a coordinated manner the needed policy reforms in different countries and to move towards a freer and fairer world trade framework.

A.C.

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Agricultural Policies in Developing Countries: National and International Aspects

Anandarup Ray
The World Bank

December 1986

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Agricultural Policies in Developing Countries: National and International Aspects[1]

Anandarup Ray

Introduction

Agriculture still accounts for a large share of income, employment, and foreign exchange earnings in developing countries--especially the poorest ones. While its share in national income has declined significantly since the 1960s, policies that bear on agriculture will remain critically important to economic growth in developing countries for decades to come. At stake is the future of the hundreds of millions of very poor people who live primarily in rural areas. Because of this, agricultural policy issues lie at the heart of the development question, and they continue to be intensely debated and discussed in both international and national forums.

One of the popular themes in the discussions on agriculture has been the capability of developing countries to expand the production of food in step with, or exceeding, population growth. Traditional concerns about the trends in the availability of food in developing countries were reinforced by a series of food crises, starting with poor harvests in East Pakistan and India in the 1960s. Still more dramatic was the "global food crisis" of 1972-74. Although it was the result of an unfortunate coincidence of various events, this episode was seen by many as the beginning of a long-term trend toward global food shortages. The subsequent food crises and famines in several parts of the developing world strengthened the Malthusian pessimism that prevailed during the 1970s. The report of the Club of Rome, for example,

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1/ While this paper draws upon the discussion in the World Bank's "World Development Report" of 1986, I alone am responsible for the views expressed. I am grateful to Ajay Chhibber, Guy Pfefferman and Ernest Stern for comments.

raised the serious possibility of a Malthusian doomsday at the turn of the next century.

At the aggregate level, these concerns were wrongly conceived. The most remarkable phenomenon at the global level is the long-term decline in the real prices of such important food grains as rice, wheat, and maize. Thanks to technological progress, the real cost of producing food has been declining. There is no reason to presume that there is a break in that trend, especially since rapid technological progress has taken root in many developing countries. With the emphasis that governments in developing countries have continued to give to research and extension programs, new technological breakthroughs are quite likely. While there is much to be done, especially in Africa, at least there is no doubt as to the priorities in this area.

But growth in food production does not, of course, have all that much to do with food security--that is, with the prevention of famines or the alleviation of chronic malnutrition. Famines and malnutrition coexist globally with food surpluses of the OECD countries; even within developing countries, the attainment of surplus food stocks do not necessarily do much for the most deprived groups. Consequently, food security has become the prominent theme in recent years. In most cases--although not always--this has led to emphasis on shorter term distribution issues and on such special remedial actions as increases in food aid, early warning systems for famines, and a variety of initiatives that governments in developing countries can take to help the groups which are most vulnerable from the nutrition standpoint.

While this is a useful way of approaching the issues, this is not the only perspective from which they can be examined. Approaches that emphasize the production side or the short-term food distribution issues do not lead immediately to some of the most important questions in world agriculture today, namely, what are the typical agricultural policies of developing countries? Are they efficient? How well do they serve the objectives of economic growth, the elimination of hunger, and the alleviation of poverty? How do these countries' agricultural policies and those of industrial countries affect each other? Even if the external environment facing developing countries is a difficult one, are they making the most of it or are they making matters worse through domestic policy mistakes? If agricultural trade and domestic policies were liberalized throughout the world, could one expect substantial gains for the world economy in general and for developing countries in particular?[2/]

The purpose of this paper is to provide a broad and indicative review of the policy trends in agriculture in developing countries. This review is intended to explain why these questions are important and deserve more systematic attention than they have thus far received.

The Policy Paradigm in Developing Countries

There are very important public goods which only governments can and do provide to support agriculture in developing countries: for example, large-scale irrigation, flood control, research and extension, rural roads, and other infrastructure. The fact that public spending on these types of services can be extremely helpful has been amply demonstrated in many cases. For example, expansions in irrigated areas and the development of new

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2/ In developing this perspective I was influenced by Johnson (1973).

varieties of wheat and rice have been major factors behind the growth of agricultural production in Asia and South America--two regions in which per capita food production has easily exceeded population growth during the last fifteen years. No agricultural strategy is likely to succeed in any country without a major effort by the government to provide the types of public goods mentioned above.

Yet, the provision of essential public services to promote agriculture is but one of many elements of economic policy that determines growth in agriculture. Without a sound policy environment, much of the scarce resources spent on such services can be wasted. Thus, while large irrigation capacities have been created in countries such as Mexico and India, an embarrassingly large share of it is underutilized, poorly maintained, or written off--so much so that rehabilitation of existing works, rather than creation of new ones, has increasingly become the top priority in this area. With respect to technology, the problem in many parts of the world is to induce farmers to adopt proven techniques rather than to create new ones. And the policy errors that governments make have a tendency of misallocating not only private investments but also public ones since governments are often influenced by market signals in choosing priorities for crop development or in identifying bottlenecks and scarcities of various types. In Egypt, for example, land reclamation projects are given high priority even though they are frequently uneconomic. A major reason why such projects seem attractive at first sight is the subsidies given to the livestock sector which exacerbate the scarcity of land.

The main elements of the policy environment that one must examine are:

-- general development strategies and macroeconomic policies,

-- taxation of farm outputs and farm input subsidy programs,

-- special public interventions in marketing.

Logically, these elements are, of course, not separable because what matters ultimately is the profitability of farming relative to that of other activities. All prices are relevant to farm profit functions in general. Even the user or access costs of publicly provided services can be included as price variables so that it is invalid to separate price and "non-price" variables.

Economic strategies and macroeconomic policies

The recurrent debt crises, episodes of high inflation and macroeconomic instability, and fluctuations in oil and other commodity prices, have all combined to produce turbulence in the world economy during the last fifteen years. This has brought to the forefront the question of how economies adjust and how domestic policies of various types inhibit or facilitate that adjustment. The traditional way of looking at sectoral policies in a slowly changing long-term planning framework is no longer quite appropriate since agriculture is a very important part of the traded sector. Policies that bear on it have a crucial role to play even in the short run.

This experience has placed new demands for flexibility and adaptabilty in policymaking and has highlighted the linkages between economy-wide and sectoral policies. Perhaps the most important mechanism through which economy-wide policies affect agriculture is the real exchange rate, on which a great deal of attention has recently been placed.

There are several different ways in which the concept of the real exchange rate is used in practice. One way is to define the real exchange rate for a country as the price in its own currency--deflated by its own general price index ($\bar{p}_d$) --of an international basket of goods deflated by the international index of inflation ($\bar{p}^*$) . If the nominal exchange rate is E, then the real exchange rate is defined as[3/]

$$RER = E.\ \bar{P}^* / \bar{P}_d$$

This is the way the concept is most often defined in empirical measurements, even when what we really want to measure is the price of tradable goods relative to the price of nontradables. Adjustments of the real exchange rate typically involve changes in the relative prices of these two types of goods. For example, a depreciation entails a switch of resources to the tradable goods sector. Under flexible exchange rates, such adjustments should ideally take place by movements in the nominal rate that equally affect the prices of all tradable goods. Under fixed exchange rates--with tradable prices determined by world markets--adjustments should take place through movements of the internal price level of nontradables. Since a major factor in the behavior of the latter price level is the behavior of the wage level, often the adjustment process can be thought of as one involving changes in the real product wages (measured in terms of tradables).

In practice, of course, the prices of traded goods do not move together. Commercial policies, as reflected in taxes on exports and tariffs on imports, have a strong bearing. On the basis of the influential paper by

3/ See Harberger (1986).

Sjaastad and Rodrigues, a measure of the exchange rate overvaluation can be obtained as:4/

$$\log (e^*/e) = (1-w)\log(1-t_x) + w\log(1+t_m)$$

where t_x and t_m are average tax rates on exports and imports, e^* is the real exchange rate when t_x and t_m are zero, and e is the real exchange rate under the actual trade policy.

This focus on trade policy is important because it brings out that the real exchange rate can be highly overvalued due to the import barriers entailed in inward-looking--or "development-through-protected-industrialization"--economic strategies pursued in many developing countries. Overvaluation of the real exchange rate hurts agriculture because agricultural import-substitutes and exports typically receive little support relative to industrial products.

But the influence of trade policy does not work merely through relative output prices. Producing agricultural inputs inefficiently under tariff barriers also hurt agriculture, unless domestic input subsidies are provided. Moreover, as the above equation shows, the inward-looking trade strategies makes the real exchange rate lower (i.e. appreciates it) relative to what it would be otherwise. Thus, nontradables become more profitable than tradables. While this is compensated for in the case of industrial products due to high tariffs (in the case of binding quotas, those products become nontradables), agriculture suffers twice over--relative to industry and relative to nontradables.

4/ See Valdes (1985) and Cavallo (1985).

Several studies have shown how protectionist policies for industry affect the prices of agricultural products relative to the prices of protected industrial products and of nontraded goods. In the Philippines, from 1950 to 1980, heavy protection to industrial consumer goods meant that prices of agricultural exports were lower by between 44 and 71 percent (depending on varius categories of imports) relative to the prices of protected traded foods, and were 33-35 percent lower relative to the prices of nontradable goods. In Peru, a 10 percent increase in tariffs on nonagricultural importables was found to decrease the prices of traded agricultural goods by 10 percent relative to the prices of those importables, and by 5.6 to 6.6 percent relative to the prices of nontradables. Similar results have been obtained from countries as varied as Argentina, Chile, Colombia, Nigeria, and Zaire.

But government policies do not affect the real exchange rate only through commercial policy; changes in fiscal, monetary,and exchange rate policies are also important. If the government has a higher propensity to spend on nontraded goods, then increases in such spending will tend to appreciate the real exchange rate. Similarly, if a government finances fiscal deficits in inflationary ways but does not depreciate the nominal exchange rate correspondingly, then the real exchange rate will appreciate. The same happens if a government finances its deficits by foreign borrowing.[5/]

In practice all these factors have often worked together. For example, when expansionary monetary and fiscal policies have led to higher inflation at home than abroad, governments have often increased protection given to industry, rather than changing the official exchange rate. Various

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5/ See Cavallo (1985).

devices, such as quotas, exchange controls, and licensing, have been used. These typically favor domestic industry. Food imports are typically excluded in order to keep urban food prices low: consequently, food imports are implicitly subsidized. Furthermore, in trying to reduce fiscal deficits in such situations, countries often raise export taxes on agriculture, thus excerbating the bias against agriculture.

As another example, macroeconomic mismanagment can cause severe problems in the face of capital inflows from abroad or sharp increases in the world prices of key exports. A favorable change in the external terms of trade should, of course, appreciate the real exchange rate, other things being equal. In itself such a phenomenon--underlying the so-called "Dutch disease" problem--is not an issue in economic resource allocation unless the short-term switches from traded to nontraded sectors have long-term costs (due, for example, to the partial irreversibility of factor movements). But, faced with favorable terms of trade, a country can also liberalize its import regime, thus nullifying the exchange rate appreciation. This happened in Iraq in the late 1960s and early 1970s.[6/] But time and again, governments have regarded temporary bonanzas as permanent and have escalated their commitments to unsustainable domestic programs, thereby exacerbating the real exchange rate appreciation during the boom period, and continuing it afterwards. This happened in Colombia, for example, in the case of coffee. Nigeria and Venezuela also reacted improperly to the oil price increases of the 1970s. This type of a problem is liable to happen in all countries, especially the small countries which are highly dependent on exports of a few primary goods.

6/ See Harberger (1986).

In assessing agricultural performance, therefore, it is of great importance to examine commercial and macroeconomic policies and how they have implicitly hurt or helped agriculture. During the 1970s and early 1980s, the real exchange rate was allowed to appreciate sharply in many countries. On a regional basis, the appreciation was sharpest in the countries of sub-Saharan Africa--the region which had the worst experience in agriculture during this period. Table 1 shows one measure of how much real exchange rates moved in selected African countries, using 1969-71 as the base.

When real exchange rates appreciate so sharply, their effects can swamp the effects of policies more specific to the sector, which are often taken in a manner divorced from economy-wide developments. Since in sub-Saharan Africa--as in many parts of developing countries--the cost of modern

Table 1 Index of real exchange rates in selected African countries (1969-71 = 100)

Country	1973-75	1978-80	1981-83
Cameroon	75	58	80
Cote d'Ivoire	81	56	74
Ethiopia	93	64	67
Ghana	89	23	8
Kenya	88	69	86
Malawi	94	85	94
Mali	68	50	66
Niger	80	56	74
Nigeria	76	43	41
Senegal	71	60	85
Sierra Leone	100	90	73
Sudan	76	58	74
Tanzania	85	69	71
Zambia	90	79	86
All sub-Saharan Africa	84	62	69

Note: A decline in the index reflects appreciation
Source: World Development Report, 1986.

farm inputs imported or produced at home is only a small fraction of total farm costs, the importance of real exchange rate appreciations relative to sectoral policies can be seen by looking at trends in farm output prices. Insofar as real labor costs increased due to out-migration of labor from agriculture, the adverse effects of macroeconomic policies would have been greater than indicated by output price trends alone.

The trends shown in Table 2 show how real farm incentives eroded over time in sub-Saharan Africa despite apparent improvements in nominal terms. Using official exchange rates, one would infer that incentives for cereal production in Africa increased by 51 percent between 1969-71 and 1981-83, that

Table 2 Index of nominal and real protection coefficients for cereals and export crops in selected African countries, 1972-83

	Cereals				Export crops			
	1972-83		1981-83		1972-83		1981-83	
Country	Nominal index	Real index	Nominal index	Real index	Nominal index	Real index	Nominal index	Real index
Cameroon	129	90	140	108	83	61	95	75
Cote d'Ivoire	140	98	119	87	92	66	99	71
Ethiopia	73	55	73	49	88	71	101	66
Kenya	115	94	115	98	101	83	98	84
Malawi	85	79	106	100	102	94	106	97
Mali	128	79	177	122	101	83	98	70
Niger	170	119	225	166	82	59	113	84
Nigeria	126	66	160	66	108	60	149	63
Senegal	109	79	104	89	83	60	75	64
Sierra Leone	104	95	184	143	101	93	92	68
Sudan	174	119	229	164	90	63	105	75
Tanzania	127	88	188	95	86	62	103	52
Zambia	107	93	146	125	97	84	93	80
All sub-Saharan Africa	122	89	151	109	93	71	102	73

Note: The nominal index measures the change in the nominal protection coefficient with border prices converted into local currency at official exchange rates. The real index measures the change in the nominal protection coefficient with border prices converted into local currency at real exchange rates.

Source: World Development Report, 1986.

is, domestic prices increased significantly more than border prices. But when border prices are calculated taking account of the real appreciations, the actual increase in incentives was only 9 percent. For export crops, incentives nominally increased by about 2 percent; however, they actually declined sharply--by 27 percent.

This is not all. Policymakers in all countries frequently cite the variability of world prices of agricultural commodities as a reason for reducing reliance on trade and on private markets, and for undertaking various types of public interventions aimed at making domestic prices more stable. But it is not necessarily the variability of domestic prices of traded goods at official exchange rates that matter. Fluctuations in real exchange rates can greatly exacerbate the variability of real farm incomes.

Table 3 shows the range of variation of the real exchange rate in selected countries, using the ratio of the maximum rate during the period to the minimum rate as an index.[7/] As a result of these variations, the actual incentives received by farmers were highly unstable--especially in Chile, Argentina, Bolivia, Costa Rica, Ghana, Zaire, Nigeria, Uganda, and Pakistan. Crude as such measurements are, they once again emphasize the need to examine agricultural policies in an integrated framework and highlight the inadequacy of purely sectoral analysis.

The importance of real exchange rate movements for agricultural production and exports has been illustrated in terms of straight-forward analysis. For example, the charts in Figure 1 suggest a close relationship by visual inspection. A more systematic review showed that an average percentage

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7/ See Harberger (1986).

Table 3 Range of variation of the real exchange rate
(Maximum rate in period ÷ minimum rate)

	1970-83
Argentina	2.68
Bolivia	2.00
Chile	5.90
Costa Rica	2.42
Ghana	12.89
Nigeria	2.34
Uganda	4.62
Zaire	2.90
Egypt	1.98
Indonesia	1.71
Pakistan	2.11

Source: Harberger (1986)

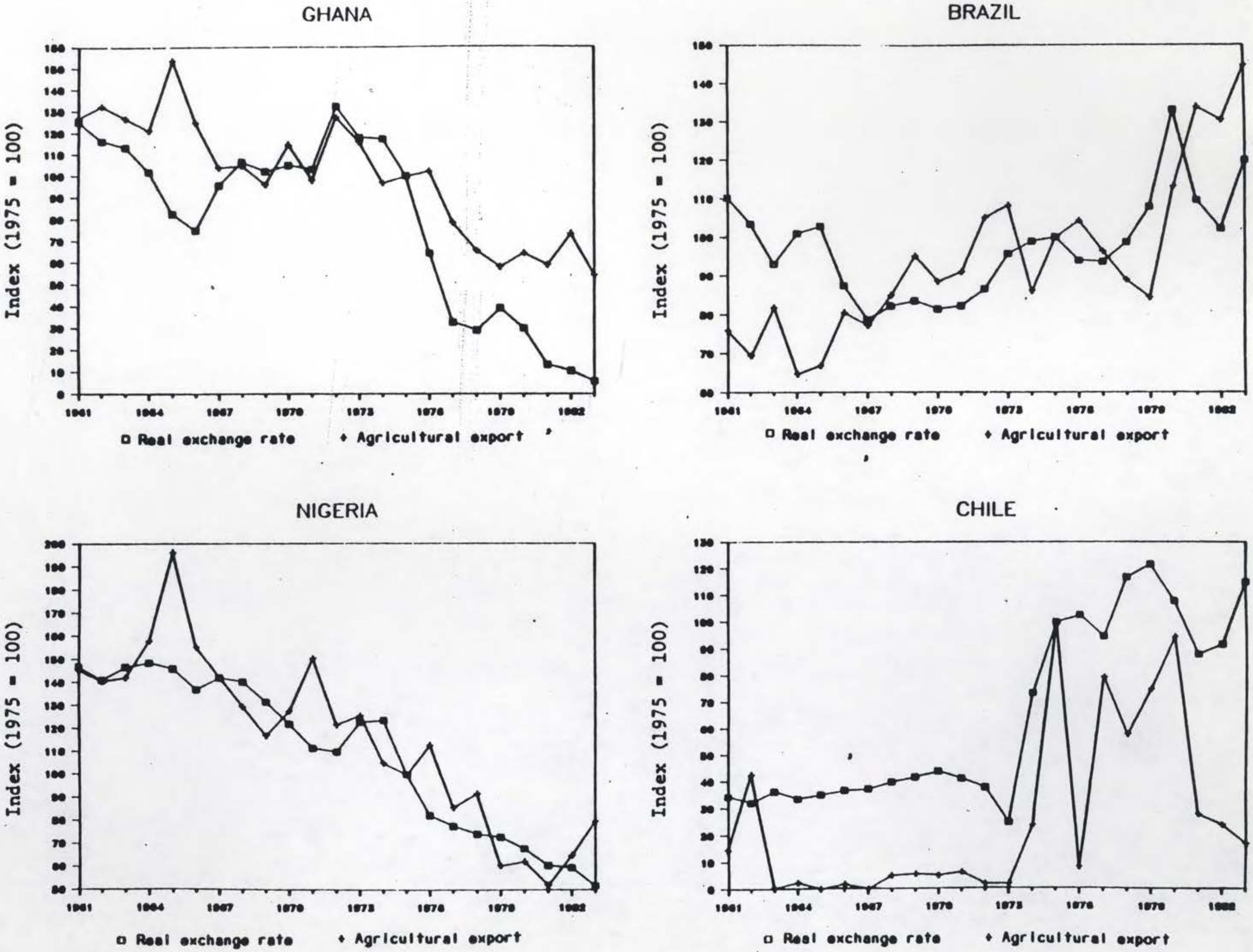
point fall in the real exchange rate reduces agricultural exports by 0.6 to 0.8 percentage points in developing countries, and by over one percentage point in sub-Saharan Africa.[8/] To be convincing, however, it is necessary to simulate the major interactions between macroeconomic and sectoral policies, taking explicit note of the sectoral policies. This will be noted in the discussion below.

Sectoral policies

Perhaps the most insightful account of sectoral policies in recent years is that by Robert Bates (1981). The paradigm he develops for some African countries is basically generalizable to other developing countries, with the clear exception of those few that have grown extraordinarily rapidly since the 1960s and now emulate the policies of industrial countries--for example, Korea and Taiwan.

8/ See Balassa (1986).

Figure 1 Indices of real exchange rates and agricultural exports in Ghana, Nigeria, Brazil, and Chile, 1961-83



According to this paradigm, a developing country typically runs a large program of food subsidies in urban areas. Producer output prices are usually supressed relative to border prices even at nominal exchange rates. Producers do receive subsidies on production, especially through low-interest credit, but such subsidies benefit mostly the relatively affluent modern farmers. Furthermore, the government intervenes throughout the whole process of production, processing and consumption. All too often, private markets are not trusted--for reasons best described by Adam Smith a long time ago and more recently by Peter Bauer. Marketing parastatals, with monopoly buying and selling priviledges, exist in numerous countries, including in Africa where their role has traditionally received the most emphasis.

There is considerable uncertainty as to the precise amount by which agricultural goods are taxed but they are undoubtedly large. In all countries, the link between the prices of imports or exports at the border and the prices at the farmgate are quite complex, and the forms of taxation and subsidies actually used in practice vary greatly. Quite apart from import tariffs and export taxes, there are trade quotas. Frequently, the amounts to be traded, as well as farmgate and urban prices, are decided by government agencies with monopoly trading powers. Their decisions can operate much like quotas or trade taxes. And it is not just agricultural decisions that matter. Transport regulations, trucking monopolies, exchange regulations and licensing issued by other agencies, etc., all contribute to the divergence between domestic farmgate and border prices.

Since few countries regularly monitor the farm-border price relationships, the de facto taxes and subsidies that affect farmers need to be researched. This is not a simple undertaking since the price relationships are typically unstable within and between years. Nonetheless, a great deal of work has been done in this area, for example by Binswanger and Scandizzo (1983). Analysis of this type is also undertaken routinely by the World Bank through its sector and economic work. As a result, a large amount of evidence has been accumulated for many countries, commodities and time periods. 9/

On the basis of this evidence, some of which is reproduced in the World Development Report 1986, it is clear that developing countries typically tax their traded agricultural products, quite independently of the indirect effects of the preferential protection to industry and the overvaluation of the exchange rate. Thus, sectoral policies exacerbate the anti-agriculture bias implicit in economy-wide policies.

Export crops are typically taxed. This has come to be expected in the case of raw materials and beverages, either for revenue reasons or for exploiting alleged monopoly powers in world markets. What is surprising, however, is that export taxes are often very high--of the order of 50-75 percent. The situation is somewhat mixed in the case of agricultural import-substitutes. Some developing countries--especially middle-income ones--have indeed tried to give preferential treatment to domestic production over imports in the case of a few food products--especially wheat, dairy and meat. Wheat, in particular, is a crop that many try to support. But, this support has not been very high and has often been offset by the effects of macroeconomic policies. Generally speaking, keeping domestic prices higher than border prices still remains a rare policy in developing countries.

It is much more common to "subsidize" imports by procuring domestic food grains below border parity prices. Monopoly trading powers in internal and external markets make this feasible. This type of a policy has been particularly noticeable in Africa: for example in Ethiopia, Ghana, and Tanzania. Rates of taxation of domestic producers have again tended to be excessive--of the same order of magnitude as export taxes.

9/ This evidence is typically available in terms of nominal protection coefficients. But effective protection rates, when available, do not alter results because at the margin most types of farming in developing countries do not use much purchased inputs.

It is true that the exercise of monopoly powers is much more difficult in the case of food crops. Parallel markets and illegal cross-border trade flourish in Africa despite various attempts at policing. Nonetheless, the growth of parallel markets only indicates that some farmers can escape the very high rates of taxation that they otherwise would have to pay. They do not escape the tax entirely (although it is difficult to know just at what rate of tax they would have been indifferent between selling officially and selling through parallel markets). It is also true that by forcing farmers to sell elsewhere, governments defeat their purpose, which is to procure food at low cost for subsidizing distribution in urban areas. The end result is reliance on higher cost imports and higher foreign exchange and budgetary losses.

On the input side, the available evidence is more difficult to digest. In the case of factor inputs, the economy-wide policies and currency overvaluations tend to increase returns and wages in urban areas, relative to those in rural areas, and this hurts farming and creates excessive migration. In the case of inputs such as fertilizers, seeds, pesticides and machinery, the typical policy is to distribute them to farmers through public agencies and at highly subsidized prices relative to border prices. The prices that farmers actually pay, however, are not necessarily those which are nominally charged by public agencies. Subsidies do not alleviate shortages, and the market-clearing prices can exceed border prices. This is especially so if account is taken of the frequently poor quality of the marketing services that public agencies provide.

This is also the case with rural credit, which has been provided at very low interest ceilings in many countries, especially in South America. Negative real interest rates of the order of 40 percent or so have been observed. This policy leads to rationed markets and to various types of secondary markets. The rich gets access and land values increase fast. The actual cost of obtaining credit is difficult to measure in such a system since the coupon rate is just one aspect of the operation. As is well-known, the actual cost of credit also depends on repayments and default. The government does not determine the cost of credit simply by adjusting coupon rates.

There is little basis for optimism that public input supply programs --on which large amounts of resources are often spent--compensate farmers for the discrimination they suffer on the product side. In fact, the long-term impact of subsidized input supply programs is often the opposite of what one hopes for. Tying up large amounts of resources on current expenditures means less resources are available for expanding the capacity to provide inputs. Even in the case of credit, if the subsidies are large and real interest rates negative, it becomes difficult to sustain rural credit programs without creating inflation. The credit programs in Brazil, for example, have contributed significantly to its high rates of inflation. Inevitably this type of a policy leads to curtailment of credit programs during economic stabilization. If one looks at the real volumes of credit that farmers get, one finds that they have been declining sharply in Brazil. As this case illustrates, subsidized input supply programs can reduce the availability of inputs over time.

Issues in Taxation and Subsidies

This overview suggests that agricultural development has been strongly discriminated against in developing countries. The mainstream discussions of agriculture in international forums, which have led to such valuable initiatives as those on agricultural research and early-warning systems for famines and which have justifiably drawn our attention to widespread and acute poverty, have neglected to emphasize the importance of discriminatory policies that developing countries have often pursued systematically. The world they face is indeed a bad one--as I shall discuss in the next section--but their own policies have compounded the problem. This is the basic paradox that one must not lose sight of.

As seen earlier, the character of the overall development strategy that a developing country follows is extremely important. Inward-looking strategies that promote inefficient industrialization not only fail to succeed in bringing about a competitive industrial base--as the research done by Balassa, Bhagwati, Krueger and others have amply demonstrated--but they also inhibit the growth of agriculture where poverty is often concentrated. What is needed is a trade-neutral or bias-free strategy. There should not be any bias against exports, i.e. the effective exchange rate for a country's exports should equal the efective exchange rate for its imports (see, for example, Bhagwati, 1986). The bias against exports is a prime cause of the bias against agriculture. Even within imports, non-agricultural import substitutes tend to be favored relative to agricultural import substitutes. This exacerbates the bias against agriculture.

In terms of policy priorities, it is clearly important to allow exchange rates to adjust fully and quickly to differential rates of inflation at home and abroad. But even if this policy were followed, the real exchange rate would still remain too high as long as import tariffs remain high. Exchange rate management is not a narrow concept that only deals with the movements of the official exchange rate. As discussed earlier, the real exchange rate concept deals with the whole trade regime. Dismounting the tariff and non-tariff barriers that are typically erected to favor industry would not only increase the efficiency of the industrial sector but also promote the efficiency and growth of the other sectors, including agriculture.

It has been argued, however, that taxation of agriculture--whether implicitly through macroeconomic policies or explicitly through sector-specific taxes--is needed for a variety of reasons of which the principal ones are as follows. First, there is the need for revenue, and there is no doubt that agriculture is the largest tax base in many developing countries. Second, there is the argument that taxation of export crops subject to inelastic foreign demand is appropriate for capturing monopoly rents. Third, it is argued that agriculture is inherently unprofitable in the long run, and taxing it is needed to provide an industrial base that is presumed to be the only way of sustaining development. And this, it is argued, not only requires tax revenue but also low urban wages. Finally, it is often thought that taxation of agricultural producers is needed to fight poverty by providing cheap food to both the urban and the rural poor.

These types of arguments are typicaly based on certain long-standing premises that can be seriously questioned in the light of experience over the last few decades. First and foremost among these is the notion that agricultural production is not price responsive. Numerous studies have shown that crop supply elasticities can be quite high, even in low-income Africa. But even if a crop supply elasticity is low, this does not mean that output taxes will have little efficiency effects. The real national income foregone as a result of a tax tends to increase more than proportionately to the tax rate. High marginal tax rates can have high efficiency costs, and at the same time generate less revenue than more moderate rates.

Moreover, sustained taxation at high rates can have far more serious effects than typically captured in studies on supply response. This comes out most strongly in the studies on Argentina and Chile carried out in the International Food Policy Research Institute. In these studies, agriculture is defined in the aggregate, so that their implications bear on the controversy about aggregate supply response, which is expected to be lower than the supply response for an individual crop because of cross-price effects.

The study on Argentina showed that between 1950 and 1972, if agricultural prices had been 10 percent higher than they in fact were (when the government was taxing them heavily), total agricultural output would have gradually increased to a level approximately 9 percent higher, on an annual basis, than it actually was over the period. The increase in production would have been achieved largely because more capital would have been attracted into agriculture and technical improvements would have been induced. Macroeconomic and sectoral policies combined to produce a large reduction in agricultural output. A similar simulation for the Chilean economy over the period 1960-82 indicated an even greater supply response: the level of output would have eventually become 20 percent higher each year than otherwise in response to a 10 percent sustained increase in the agricultural price. Sustained taxation of farming can thus lower the returns to investment, discourage technical progress, and encourage farmers to leave the land.[10/]

While the evidence from Argentina and Chile may not be generalizable fully to other countries, the results are intuitively very plausible and are in accordance with the general experience in other countries as well. Where

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10/ Cavallo and Mundlak (1982), also Mundlak (1979).

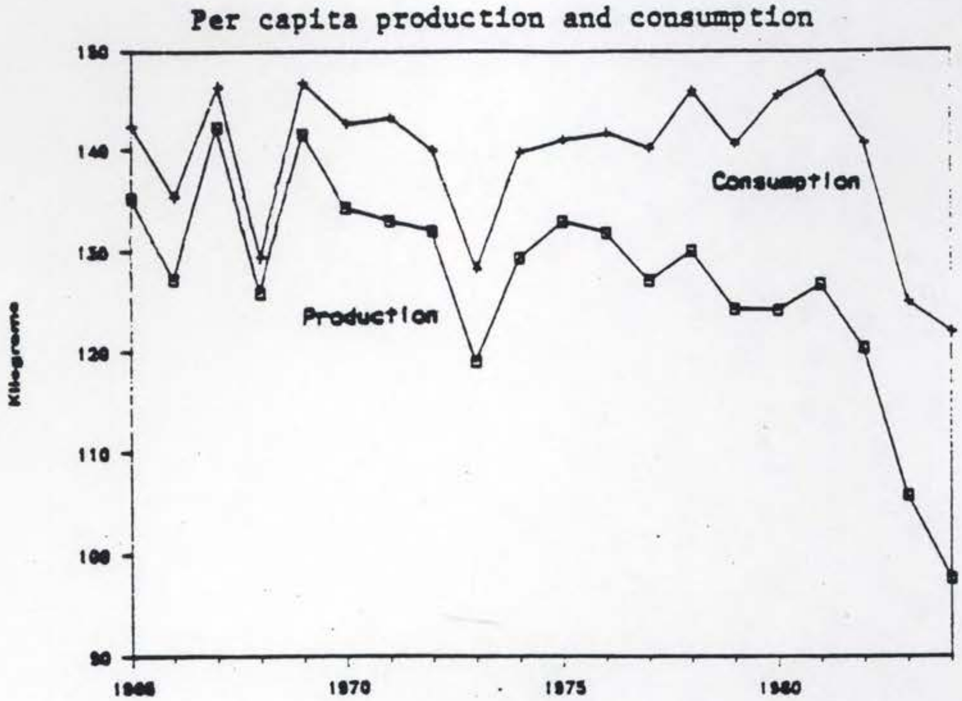
discrimination against agriculture has been moderate--as in many Asian countries--it has done well and food production has easily outpaced population growth. In China--for example--the dramatic turnaround in agriculture since the reforms began cannot be explained in terms of public expenditures on infrastructure and input supply programs; it can only be explained in terms of higher incentives to farmers due to better prices and significant moves in the direction of private property and marketing.[11/] In contrast, sub-Saharan African countries, where agriculture was most discriminated against, performed dismally--as partially depicted in Figure 2.

The fact that supply responses in agriculture can be high points to the need for great caution in drawing policy conclusions from the conventional analysis of long-run trends. While it is true that the share of agriculture in the national income tends to decline over time as economic development proceeds, this does not imply that the process should be speeded up through excessive taxation. Inter-sectoral neutrality of economic policies would ensure that the decline in the relative share would occur at the right pace through natural technical progress.

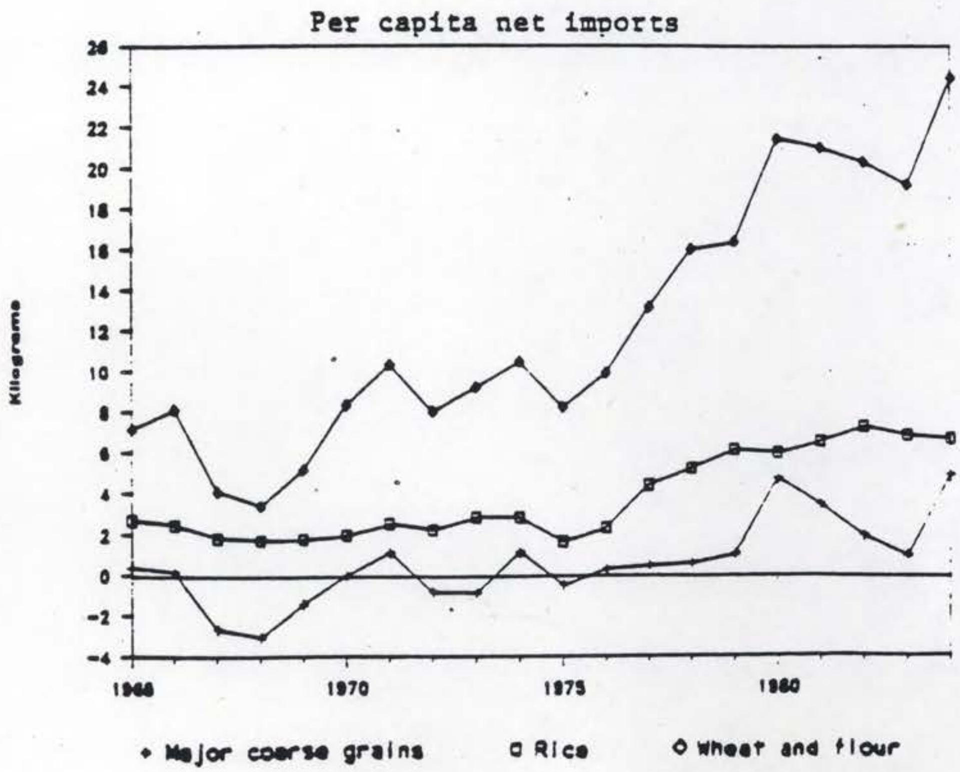
The Prebisch-Singer thesis about declining barter terms of trade is another concept that has continued to linger in the public mind and influence policymakers, despite the detailed scrutiny it has received from Spraos and others. Whether that thesis was right or wrong, its basic problem was that it never had much to do with the policy priorities in any particular country. Indeed, as the experience of Malaysia and Thailand with palm oil and rubber has showns, primary production can survive as an economic proposition if technical change is encouraged.

11/ Lardy (1985).

Figure 2 Production, consumption, and imports of cereals in sub-Saharan Africa, 1965-84



Note: Consumption is calculated as production minus net trade.



The evolution of export shares in world markets is a particularly relevant indicator in this context. It also suggests that monopoly power in world markets can be easily overestimated. Those countries which neglected their primary sectors and imposed heavy taxes--perhaps for the purpose of capturing monoply rents in the world markets--have seen their market shares rapidly dwindle--Ghana and Nigeria in cocoa, Nigeria and Zaire in palm oil, Burma in rice, Egypt in cotton and Sri Lanka in tea. It is not that one should not be concerned with declining trends in world prices; it is just that one can do much better than these countries have done to cope with such trends.

At a deeper level there remains the questions about trade-offs: the trade-off between sacrificing some national income through taxation to finance productive public expenditures, and the trade-off between efficiency and poverty-redressal. Regarding the first, it has become conventional in the agriculture literature to pose the trade-off in terms of "price" versus "non-price" factors. However, this trade-off is typically wrongly formulated. Apart from the artificiality of separating price and non-price factors, it is typically discussed in terms of aggregate agricultural output, not in terms of GDP or some other welfare measure. Even so, the constraints on the trade-off analysis are seldom specified.

Perhaps the simplest way of putting the policy question would be to say that agricultural taxes are needed for raising revenue, which in turn is needed for financing desirable public expenditures--in particular in rural areas. One can then go on to show that the economy may gain at a certain rate of taxes on farm products. Such an analysis can be constructed readily to show the case for some taxation of agricultural outputs in particular cases. If direct land or income taxes are ruled out because of political or administrative reasons, output taxes may be the only feasible way of raising revenue from agriculture. Export taxes on plantation crops can even be designed in a manner that is equivalent to income taxes. Moreover, the configuration of demand structures for farm outputs and inputs may be such as to call for a combination of output taxes and input subsidies to minimize the cost of raising revenue. A large taxonomy of cases can be created along these lines.

But such theoretical constructs cannot justify the high marginal rates of output taxes seen in practice which exceed the revenue-maximizing rates. Nor can the case for subsidies on such inputs as fertilizers in special situations justify their widespread abuse. Moreover, the problem one often faces in practice is that taxes on farm products do not always generate revenue in the conventional sense, and governments are often overextended on the expenditure side. Losses of parastatals alone have amounted to 1 or 2 percents of GDP in countries as diverse as Peru and Tanzania. If a formal trade-off analysis were done, it would no doubt show a strong case for much lower public expenditures of the type usually undertaken, as well as a strong case for lower taxes on farm products.

Turning to the question of trade-offs between equity and efficiency these are of course of great importance and relevance. As is well-known from basic welfare economics, different initial endowments of assets will lead to different Pareto points and one cannot choose between these points without distributional judgments. Once a social valuation function is defined, one can work out a set of optimum prices to which one can refer for measuring distortions. However, there is no consensus on what the social valuation function ought to be and the resultant indeterminacy inevitably clouds policy analysis and discussions. What drives socially oriented programs and policies in the end is the strong political interest that beneficiary groups tend to develop.

It should not therefore be much of a surprise to find that many economic policies neither serve efficiency nor social goals. Taxing farmers heavily affect all farmers- large or small- but the "compensatory" input subsidies generally accrue to selected farmer groups--especially the relatively affluent ones. Providing nondiscriminatory subsidies to the urban population and financing them through farm taxes is another very common phenomenon that frequently fails to benefit the real poor, while inhibiting growth and efficiency.

The recent literature on poverty and food security has explored a large variety of interventions that can be considered for redressing manutrition and famines (see, for example, World Bank, 1986b, Pinstrup-Andersen, 1985 and Sen, 1986). As in the World Development Report, the policy of providing indiscriminate urban food subsidies have generally been considered to be high cost and ineffective relative to alternative targeted schemes. The manner in which urban food subsidies are often provided--for example, by keeping urban food prices fixed in nominal terms--can play havoc with the budget and the import bill. There is little doubt that sustainable food subsidy programs would be much smaller and much better targetted than the kinds of programs in effect during much of the last few decades in countries such as Egypt, Mexico and Sri Lanka.

While it is extremely important to examine the cost-effectiveness of the ways in which governments try to meet social goals, this approach has its limitations. Since no one--in or outside a government--readily agrees to what the social goals actually are in practical and operational terms, it remains impossible to design socially oriented programs fully and in the light of well articulated priorities. It is also not possible to answer the basic question: how much resources should be spent on special programs for the poor and how should the allocation vary with country circumstances?

This question raises intertemporal issues. Consider the question of the distributional impact of farm output taxes. It is often argued that there are rural societies where the poor are net purchasers of food who will get hurt when food prices rise. This is true, although one must quickly note that this argument does not mean that whatever the rural food prices happen to be today must be regarded as a ceiling. But, more importantly, it is highly likely that the long-run negative effects of food price increases on net purchasers will be smaller than the immediate effects; the effects may well become positive as rural employment opportunities and labor demand grow. And the long-run may be quite short as the recent experience of China illustrates.

If one--merely as a thought experiment--adopts the well-known utilitarian framework--then the intergenerational social discount rate can be regarded--as a first approximation--as the expected growth in per capita income growth.[12/] The lower it is the lower should be the weight on current poverty redressal policies. In countries where per capita income growth can be expected to be very low, or even negative, growth-inducing policies should be given the highest priority. Only those socially oriented programs and policies which induce growth would fit into high-priority policy packages. The view that a country can attain food security "if and only if" the growth rate is satisfactory is not just plausible but also very relevent given the dismal experience since 1970 of many countries in Africa and Latin America.

12/ Ray (1984).

The concept of food security also encompasses famines. A great deal of research on famines has been undertaken in recent years (Sen 1981, 1986). Without minimizing the influence of adverse events, such as bad weather and wars, there is little doubt that the severity of many of the famines has had much to do with social and economic policies. In the Bengal famine of the early 1940s, for example, keeping urban food prices low while financing additional war-time demand and restricting inter-provincial trade led to a high inflation tax on landless laborers and other vulnerable groups. As Adam Smith concluded with reference to another Bengal famine a long time ago, and as amplified and extended by Sen recently, dealing with famines is not just a matter of prompt curative steps, nor is it merely a question of aggregate food availability. Bad economic policies, and sustained farm output taxation in particular, increase a country's vulnerability to famines.

Does all this imply that developing countries ought to be subsidizing their agriculture rather than taxing them? Should they introduce farm output price support schemes of the kinds used in developed countries and in Korea and Taiwan? Although cases in which developing countries systematically maintain domestic prices above border prices are relatively rare, these questions are increasingly becoming relevent. Excess stocks in grains have emerged in many countries in recent years, e.g. in India, Indonesia, Malawi, Kenya, and Zambia.

To the extent that support policies are intended to offset the anti-agriculture bias inherent in inward-looking strategies, they do have some plausibility. At the same time policy distortions are best attacked at their source. If inward-looking strategies are inappropriate and counter-productive, then by far the best thing to do is to give them up. That is the central message, rather than that governments, having adopted the wrong development strategy, should try to improve things by introducing compensatory distortions in agriculture.

Besides, it is important to distinguish between policies that affect all of the tradable sector in agriculture and policies that affect individual crops. It would be easy to show that the huge subsidies implicit in the current Indian wheat policies are not justified on economic or social grounds. The current debates on the manner in which India should dispose of its enormous surplus stocks of wheat--produced at more than twice the border price--tend to focus on options such as dumping abroad or special distribution schemes for the poor at home. But whether India provides food aid abroad (as has happened) or at home, it could no doubt do so at a lesser cost in terms of foregone national income. As in developed countries, it is hard to see how food security can be improved by throwing away scarce resources.

Finally, I must note that throughout the developing world the types of issues I have raised above are under serious re-examination and many countries have instituted very significant policy reforms. The broader the reform the better. Turkey, for example, has already achieved great benefits from its relatively recent reforms of both economy-wide and agricultural policies. But the importance of more micro reforms should not be underestimated--the changes in cotton pricing policies in the Sudan or the wholesale revamping of the food distribution system in Mexico, or the moderation of the food subsidy program in Sri Lanka, or the privatization of many parastatals that is underway in many countries.

International Aspects

In many ways the policies in industrial market economies are the opposite of those in developing countries. They strongly support their farmers by keeping farm prices much higher than they otherwise would be with free trade. Only New Zealand is an exception, although such farm support policies are also quite moderate in Australia. On average, internal producer prices in industrial countries are about 40 percent above comparable world prices. Moreover, the excess of domestic prices above world prices has grown very fast since the early 1960s, particularly in the EC and Japan. This has also been the case in Korea and Taiwan. Sustained support of farmers have led to growth in both outputs and yields. The EC, for example, has been transformed into a large exporter of grains and sugar since the initiation of CAP.

The types of intervention used to achieve high domestic price levels vary by country and by commodity. Producers of imported commodities, such as sugar, are protected by means of tariffs, quotas, or variable levies. If domestic protection creates excess supplies, the excess is disposed of on the world market through subsidized sales or as food aid. Several countries control output acreage as a way of keeping surpluses down. In addition, state-controlled marketing boards, direct payments to producers, and subsidies on inputs and credit are widely used to aid farmers.

The cost of farm support policies is enormous. Estimates of the cost vary, depending on the particular year considered and the assumptions made about what would happen in the absence of intervention, but are in the neighborhood of $100 billion annually for consumers and taxpayers in the industrial countries. This is the estimated gain that would occur from lower consumer prices and government outlays if the industrial countries put an end to intervention in agricultural markets.

Farmers would lose from such a step, but not nearly as much as consumers and taxpayers would gain. Moreover, the gains that farmers receive now are mostly capitalized into asset values, primarily of land, so that for new farmers protection becomes a cost of entry rather than a benefit. Policies to protect farmers have also become less necessary as farming has become more and more a part-time occupation. In the United States, net farm income as a proportion of farmers' total income fell from 58 percent in 1960 to 36 percent in 1982. In Japan, where small-scale farming is dominant, farm households derived 75 percent of their income from nonfarm sources in 1980.

But the point is not the high cost of the support programs in absolute terms. The countries concerned are rich enough to afford high costs. Rather, the question is what objectives are being served by such wasteful policies. The most commonly cited objective is perhaps "strategic" food security--the ability to do without food imports in times of global crises. But given the long-term trend decline in food prices (since Malthusian times!), there is serious doubt that it is worthwhile maintaining an inefficient system permanently for the odd chance of a bad year. And in the event of such a year, the system can soon get disrupted by problems with access to the modern inputs on which agriculture in the industrial countries so heavily depends. Paradoxically, the country which seems least concerned with strategic food security in this sense is the USSR, which has become a large importer in order to meet its rising consumer demand at subsidized prices.

But quite apart from the domestic costs, the international consequences of their policies are also of serious concern. Given the pattern of policies in developed and developing countries described above, it is obvious that the world as a whole does not maximize real incomes through its agricultural policies. Production is uneconomic at the margin in industrial countries. Their production and exports are too high, and their imports too little. This will still be so if developing countries remove discriminatory policies against their own agriculture. With free trade and better domestic policies one would intuitively expect very big gains to many developing countries--for example, to the major South American countries like Argentina, Brazil, Chile, Colombia and Mexico, to the small sugar-dependent economies, and to all the major Asian countries like China, India, Indonesia, Malaysia, Pakistan and Thailand. One would also expect many African countries to gain. The food trade balance, which has sharply turned against developing countries in recent years, would become more favorable to them. At the same time, the industrial countries will avoid the large real income losses they currently incur in supporting their farmers.

Were we in the 1930s, this kind of reasoning would have been more than enough to bring forth strident pleas for free trade from Maynard Keynes and others. These days, however, it is more fashionable among economists to settle for moderation and partial reforms. Nonetheless, it is useful to construct free trade scenarios as benchmarks for assessing other international policy initiatives. Tyers and Anderson in Australia, and IIASA in Europe, have made such attempts; the former also produced a special exercise to help us write the World Development Report.[13/] In addition, there have been a series of less ambitious studies by many others, most notably by Valdes and Zietz.[14/]

13/ Tyers and Anderson (1986).

14/ Valdes and Zietz (1980).

Quantitative free trade scenarios are subject to a great many limitations, as duly and extensively noted in the World Development Report. They are illustrative of what might happen, rather than actual forecasts. Nonetheless, on the basis of temperate-zone products only, Tyers and Anderson estimated that if all countries liberalized their policies simultaneously, industrial market economics would gain about $46 billion annually and developing countries about $18 billion. The estimated gain to industrial market economics easily exceeds the total annual volume of official development assistance they provide. The gains would be much larger than this if trade restrictions on tropical-zone and processed agricultural commodities were also reduced or eliminated.

Another interesting and beneficial effect would be on the variability of world prices of agricultural commodities. The variability that one observes in world markets is only partially due to climatic factors and the relatively lower supply and demand elasticities of agricultural products. the insular policies that both developed and developing countries follow contribute substantially to the variability--each country tries to "pass on" price fluctuations to others. This is obviously so in the case of sugar--the most unstable commodity--where the free market is in fact a residual market. Even in the case of wheat, studies indicate that the coefficient of variation might be halved with free trade. While price variability may still remain higher in agriculture than in manufactures, the difference will be greatly narrowed.

As the free-trade benchmarks suggest, the farm policies in OECD countries have indeed distorted the pattern of world agriculture. In fact the current crisis in world agriculture has much to do with the increases in protectionism in some of the OECD countries during the last decade or so. It is easy to see that the extremely low level of commodity prices at this time is not simply a demand problem. The so-called "High" scenario in the 1986 World Development Report indicated GDP growth rates of 4.3 and 5.9 percents for the developed and the developing countries respectively during the decade of 1985-95. There is no presumption at this time that such growth rates will indeed be realized. But even if they are realized, the demand growth would only be marginally less than it was during the 1965-73 period. And, in that earlier period protectionism in the OECD countries was much less and the technological revolution in agriculture in developing countries had barely begun. The current problem in world agriculture may be ameliorated by a resumption of the type of growth rates seen in the 1960s, but it will not by any means disappear unless the incentive policies change, especially in Europe, Japan and the United States.

Lest it be thought otherwise, the OECD policies are not solely responsible for the problems in world agriculture. The policies in developing countries have much to do with them. One of the most interesting discoveries of the analysis by Tyers and Anderson is the extent to which insular policies in developing countries contribute to the instability in world commodity prices even in the case of grains. While few developing countries can affect the levels and variability of grain prices in the world, as a group they do so to a very significant extent. And as also brought out in the World Development Report, the developing countries as a group will benefit significantly from free trade if and only if they reform their domestic agricultural policies in the directions outlined in the previous sections.

What strategies should developing countries adopt in "bargaining" on policy reforms? Should each developing country adopt "anti-dumping" tariffs to offset the subsidies on exports from OECD countries? Should developing countries resume their efforts to improve policies on international commodity agreements, food aid and special trade preferences?

Given their efforts to improve their own policies, the developing countries as a group would clearly gain most from a free trade regime in world agriculture. Of course, not all developing countries would gain equally, and some might even lose from a significant move towards free trade. But our analysis showed that when losses occur they are very small and of no significance compared to the distributional effects of the various types of "external shocks", such as changes in the price of oil, that have occured in the past. To ensure that no one loses all that is required is marginal adjustments to the allocation of aid and capital flows to developing countries. Free trade in agriculture would be as close to being a Pareto improvement as any other policy change one can think of. Initiatives, such as changes in commodity agreements, trade preferences and food aid policies, pale into insignificance in comparison to the free trade alternative.

It is not in the interest of any developing country, considered in isolation, to mount tariffs and export subsidies solely as anti-dumping measures. The border prices they face define their best opportunities. However, agricultural support policies in all developing countries would benefit the world as a whole by shifting production away from the OECD countries. One caveat to this--and possibly an important one--is the prevalence in Europe, and to a lesser extent in Japan, of variable levy schemes which completely insulate domestic prices from world price changes. If that insultation is maintained then surpluses will continue to occur regardless of the policies in developing countries.

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