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BASIC HUMAN NEEDS '77-'78



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## OFFICE MEMORANDUM

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TO: Mr. Hollis B. Chenery (o/r)  
 FROM: Mahbub ul Haq<sup>gr</sup> and Paul Streeten  
 SUBJECT: ECLA Work on Basic Needs

DATE: October 3, 1978

1. We both visited Santiago from July 26-28 at the invitation of Enrique Iglesias, Executive Secretary of the Economic Commission for Latin America, to discuss with a small group of staff members of ECLA their work on Poverty, Income Distribution and Basic Needs. Iglesias intends to focus on these issues as a major part of ECLA's future work and wanted to have a brainstorming session to clarify the policy issues involved in this work. The discussions during the two and a half days we were there were very useful. (Our report has been delayed by the interruptions caused by summer vacations.)

2. The application of a Basic Needs approach to middle-income countries raises particularly interesting and important questions. Some would go so far as to argue that only there has Basic Needs something distinctive to offer. For the poorest countries, growth must be the top priority; but for countries in which aggregate production would be adequate to meet basic needs, the administrative, political, and economic implications of the approach become significant.

3. Our ECLA colleagues saw very clearly the political constraints on any strategy attempting to meet the basic needs of the poor within a short time. Very interesting quantitative work on poverty has been done by the staff, especially Sergio Molina and Sebastian Pinera. One conclusion is that as far as the volume of resources is concerned, existing poverty could be eradicated in the majority of countries of the region. The analysis is conducted in terms of poverty gaps. More than 90 percent of the poor of the region belong to countries in which the share of income which would have to be permanently transferred to the poor, to enable them to meet their basic needs, is less than 5 percent of GNP. As a proportion of public expenditure, the share would be 25 percent, and as a proportion of social public expenditure even higher. Of course, economic possibility is not the same as actual feasibility.

*Both children  
 from the  
 Alessandri  
 group.  
 good  
 economists*

4. Growth, the analysis shows, is necessary but not sufficient: necessary because redistribution out of a growing income is easier; insufficient, because with past growth patterns the majority of countries in the region would need about 30 years before basic needs could be met.

5. The document shows that the market mechanism by itself would not generate forces to redistribute the fruits of growth to the poor. This is why the document divides the analysis into three stages: (i) characteristics of poverty and the poor; (ii) characteristics of the economy and forms of state intervention; and (iii) characteristics of the State itself.

6. The document analyses the strength of organization of different interest groups and shows how the potential losers from redistribution are more powerfully organized than the potential beneficiaries. The analysis shows that most regional policies declared to alleviate poverty have failed to reach the poor and have "trickled up".

7. According to another document which uses a poverty line covering the costs of buying a minimum basket of goods and services (mainly food, shelter and clothing), it is shown that in 1970, 46 percent of all Latin Americans were below this line. If the same proportion was maintained, 155 million Latin Americans are now living below this line. It was estimated that during the 60s income per head of the poorest 20 percent grew by only \$2 while that of the richest 10 percent grew by \$300 (in constant 1960 prices). This paper also concludes that a transfer of 5-6 percent of GDP between 1977 and 2000 could eliminate under-employment and poverty.

8. An illustration is taken from the low-income peasants of Northeast Brazil. Redistributing all available land into plots capable of producing minimum incomes would cover only 50 percent of the families involved. Even with agrarian reform, additional measures, like peasant organization, credit policy and technological modernization would be necessary. But these measures without land reform would only reproduce the existing pattern of concentration.

9. In a separate exercise the staff attempted to calculate the change in poverty and extreme poverty between (around) 1960 and (around) 1970, as an average for Latin America. The extreme poverty line is defined at \$75-130 per head, depending on the country, and the poverty line at \$150-250 per head. In 1950, 52 percent of the population suffered from poverty, and 22 percent from extreme poverty. The absolute numbers were 112 million in poverty, of whom 48 million were in extreme poverty. In 1970 the proportions had declined to 40 percent and 17 percent, but the absolute numbers were almost the same: 113 million and 48 million. Projections with distributions unchanged showed that those in poverty would be 33 percent (122 million) in 1978 and 21 percent (128 million) in 2000.

10. The proportion of GNP needed in order to bring everyone above the poverty line was calculated. This was:

1960	14 percent.
1970	6 percent
1978	3 percent

The reduction in this proportion is not due to any change in the absolute number of those in poverty, but due to the increase in the total national product. The calculations do not take into account the distribution of social services, nor differential price movements for those in different income groups, but they do apply to disposable income.

11. It was argued by the ECLA staff--rightly we believe--that the World Bank estimates of absolute poverty are greatly influenced by the Asian experience, particularly of the Indian subcontinent, and tended to underestimate the number of absolute poor in Latin America. The country-specific estimates prepared by our ECLA colleagues, by costing a basket of minimum basic needs in terms of each country's requirements and prices, show that the number of absolute poor may be twice as large as previously calculated by the Bank. We are keeping in close touch with this aspect of their work.

12. In the general discussion, it was agreed that a sharp distinction must be drawn between two interpretations of Basic Needs: first, Basic Needs as a minimum welfare program, and secondly, Basic Needs as a dynamic, culturally and socially differentiated, approach. Only the second was acceptable.

13. It was also agreed that, however hard one may try to define Basic Needs in absolute terms, a relative element inevitably enters. This is so for two reasons. First, and most obviously, what is regarded as a decent minimum inevitably depends on the norm in a given society, and this norm moves up with the average. Secondly, less obviously, as average income rises, precisely those goods on the consumption of which the poor depend heavily, either tend to rise in price more than the average or cease to become available and are replaced by more expensive goods (e.g. more highly processed, more packaged, etc.). It is this second point that makes it so important to correct calculations of shares of different income groups in total income by changes in the relative prices of the goods consumed by these groups.

14. We found the discussions and background papers very useful. Many of the original papers were in Spanish, though the ECLA staff supplied us with summaries of some in English and presented the others orally. We have established a close contact with the policy work underway on basic needs and will draw on some of the studies now being completed by ECLA to prepare the Departmental input on "Basic Needs in Middle Income Countries" for WDR-2.

cc: Mr. McNamara  
 Mr. Stern  
 Mr. W. Clark  
 Mrs. Boskey  
 Mr. Karaosmanoglu  
 Mrs. Hughes  
 Mr. B. King  
 Mr. Duloy  
 Mr. Muller  
 Mr. Jaycox  
 Mr. Yudelman

*Return to  
 be expected  
 in S America*

## OFFICE MEMORANDUM

TO: Mr. Mahbub ul Haq, Director, PPR

DATE: August 14, 1978

FROM: Shirley Boskey, Director, IRD *SB*SUBJECT: Basic Needs at U.N.

You will find in the report on ECOSOC just sent to the Executive Directors some references to the subject of basic needs as it was treated in statements in the plenary.

You might also be interested in the following excerpt from the report of the Chairmen of the ACC (the Secretary-General) and of the Committee for Programme and Coordination (Peter Hansen), dealing with the debate in the Joint ACC/CPC meeting:

"23. During the discussions a considerable effort was made to clarify the concept of basic needs which had become "slogvanized" and onto which extraneous - and to many countries unacceptable - connotations had been grafted. It was stressed that this concept should not be advanced as a substitute for efforts to implement the New International Economic Order and from the North-South dialogue, that it should not hamper the industrialization of developing countries, that it should not lead to intervention by developed countries in the internal affairs of developing countries and, finally, that it should not carry with it connotations of charity. It was also pointed out that the concept was in many respects inapplicable to the more developed of the developing countries, which generally did not require assistance in these areas.

24. On the other hand, it was stated that the concept of basic needs had first been formulated in the context of the World Employment Conference, where emphasis had been placed first on growth, next on job creation and only thirdly on basic needs. While the concept might be ambiguous, there were in fact 300 million unemployed persons and their dependants in developing countries whose basic requirements needed to be satisfied through economic growth and job creation. This would need to be done within the framework of the New International Economic Order on the basis of policy decisions taken by individual countries in the full exercise of their sovereignty. Moreover, it was stated that the basic needs concept would not be taken as a pretext to avoid increases in or even to reduce the level of financial assistance to developing countries.

25. It was suggested that the basic needs concept had to be considered in the context of the complex process of development, which involved social, economic and political factors. In tackling the problem of ensuring greater equity, the United Nations system was entering a politically-charged sphere and therefore would need to give due consideration to the political factors involved. Hence the subject should receive greater prominence in the deliberations of the Economic and Social Council and other intergovernmental bodies. Also, it should not be allowed to overshadow the goal of achieving greater equity in economic relations among developed and developing countries.

26. It was generally felt that the discussions had helped to clarify what was meant by the basic needs concept and to reach a better understanding that, far from being a substitute for the New International Economic Order, the concept fell fully within its framework and covered economic growth and increase in employment opportunities."

My notes on the meeting provide some detail.

It was the representative of the U.K. who first raised the question of the meaning of "basic needs". He suggested that a substitute term was necessary, one which more nearly conveyed what was meant -- although he also remarked that agreement on the meaning was still lacking. He offered as a substitute term "social economics", while saying that he wasn't convinced that was much better.

Paragraph 24 summarizes the intervention of the Director-General of ILO, who responded to the U.K. His point was that if the term "basic needs" is divorced from its original context, it takes on a "somewhat mystical" meaning and flavor, but seen in the context of the World Employment Conference, where the concept started, it is evident that it is not a substitute for "growth".

The representative of India remarked that governments had become too used to regarding the "new international economic order" and "basic needs" as banners of two different groups, but that discussions in the Committee of the Whole gave reason for hope that the two concepts would be regarded as not inconsistent. However, he said, the problem is not one of semantics. Qualitative questions have increasingly engaged the attention of governments and figure in development programs to an increasing extent. The troublesome aspects are those which are seen as tending to infringe national sovereignty. He was not saying that "basic needs" did infringe sovereignty but it might come to have that effect and, in any event, as long as the apprehension that it may is there it must be dealt with. The "hand-out" aspect of basic needs could, moreover, divert attention from the need for social change. The amelioration of the quality of life is an objective of the government of India, he said, but the government was cautious about incorporating this objective into an international strategy.

The intervention of the representative of Jamaica (Ambassador Mills, this year's ECOSOC Chairman) is covered in paragraph 25. He said there was a greater onus than ever before on the U.N. to provide a framework within which the new perceptions could be seen. There were two aspects to the concern for greater equity: raising the standard of living for all people in all countries, and greater equity within countries. These two concepts of global equity and internal equity would converge over time. The U.N. must take account of political perceptions on development.

SEBoskey/rob

cc: Mr. McNamara

July 19, 1978

Mr. A.G.D. White  
Australian Permanent Mission  
56 rue de Moillebeau  
Petit Saconnex  
1211 Geneva 19  
Switzerland

Dear Mr. White:

Thank you for sending me a copy of the notes on the Galtung comments. I had left Geneva by the time the paper reached the World Bank Office in the Palais, and it has just come to me in Washington; that is why my acknowledgement is delayed. I have read the notes with interest -- which is not to say complete agreement with what was said.

Sincerely,

Shirley Boskey  
Director  
International Relations Department

SEBoskey/rob



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INTERNATIONAL DEVELOPMENT ASSOCIATION

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POLICY REVIEW COMMITTEE

PRC/C/78-1

July 18, 1978

THE RELATIONSHIP OF BASIC NEEDS TO GROWTH, INCOME DISTRIBUTION  
AND EMPLOYMENT: THE CASE OF SRI LANKA

The attached paper, "The Relationship of Basic Needs to Growth, Income Distribution and Employment: The Case of Sri Lanka," prepared by the Policy Planning and Program Review Department is the first of the series of seven country papers scheduled under the Basic Needs Policy Work Program. The paper was reviewed by the PRC Staff on June 1, 1978. It was circulated to the President's Council for information on July 13, 1978.

The paper is now being circulated for your information. Comments, if any, may be sent to Mr. Paul Iseman (Room I-621, Ext. 60138).

Shahid Javed Burki  
Secretary  
Policy Review Committee

Distribution

IBRD Department Directors  
Regional Chief Economists  
Program Coordinators

The Relationship of Basic Needs to Growth,

Income Distribution and Employment:

The Case of Sri Lanka

Policy Planning & Program Review Department  
June 30, 1978.

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The Relationship of Basic Needs to Growth, Income Distribution  
and Employment: The Case of Sri Lanka

[Introductory Note: This paper is meant to complement the economic report, "Development in Sri Lanka: Issues and Prospects" (No. 1937-CE), issued in March, 1978. That report placed primary emphasis on the steps Sri Lanka needs to take to restore growth, but also included, in summary form, many of the key points in this paper. However, there are some differences in tone and interpretation between the report and the paper, particularly on the assessment of tradeoffs between growth and basic needs.]

During the 1970's, Sri Lanka has been considered a prime example of poor economic performance and of the sacrifice of growth for improvements in income distribution and for unaffordable expenditures on welfare. However, recent interest in "basic needs" has called favorable attention to Sri Lanka's unusual social accomplishments and to its extensive social programs aimed at meeting basic needs. Hard on the heels of the new, more positive appraisal of Sri Lankan development, though, have come revisionist views that question its accomplishments in improving income distribution and in meeting basic needs, and that thus reinforce the earlier judgment, that the apparent tradeoff of growth for equity was a poor choice.\* This paper considers Sri Lanka's record on basic needs, and its relationship to growth, income distribution and employment. It emphasizes those aspects of Sri Lanka's experience which have been most controversial and which have broader implications for a basic needs approach to development.

I. Basic Needs

For purposes of this paper, a basic needs approach to development can be defined as one which includes meeting basic health and education needs as one among the major development objectives and which emphasizes on increasing the human capital, productivity and incomes of the poor as means of meeting basic needs and increasing growth.\*\*

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\* E.L.H. Lee, "Rural Poverty in Sri Lanka 1963-73" in ILO, Poverty and Landlessness in Rural Asia: ILO, Geneva, 1977. David Morawetz, "Economic Lessons from Some Small Socialist Developing Countries", paper presented at the ninetieth annual meeting of the American Economic Association, December 1977.

\*\* Thus, there is no single basic needs strategy; rather basic needs approaches to development are compatible with a broad range of market-oriented or socialist economic and political systems. The basic needs approach by this definition comprehends the recent trend in development economics toward more emphasis on issues of poverty and income distribution. It differs primarily in the explicit emphasis it puts on attainment of basic needs of the poor, with improvements in their absolute and relative incomes being viewed as important means of doing so. It does not matter, for purposes of this paper, whether one considers the means required to achieve good health - such as adequate nutrition, potable water, housing or clothing - as basic needs themselves. See Employment Growth and Basic Needs: A One World Problem, ILO, Geneva, 1976. Also see Mahbub ul Haq, "Progress Report on Basic Needs" (World Bank, August, 1977), for further development of some of the concepts and unresolved issues of the basic needs approach.

It could be said that Sri Lanka was not following what we now call a basic needs approach, but rather was responding to political pressures for a set of social programs. In addition, since these programs were available to the whole population, rather than just to those whose basic needs had not been met, it could also be said that they were not basic needs programs per se. But the only way a basic needs program can succeed is if it has strong domestic political support. Similarly, if political realities mean that health and education programs in most developing countries cover middle and upper income groups much better than they do lower income groups, then it seems politically unrealistic to insist that approaches which meet the needs of lower income groups as well as others should be excluded from the definition. Rather, the Sri Lankan case is an instance of how, in a private-enterprise oriented and democratic society, it was politically feasible to meet basic needs.

Sri Lanka's accomplishments in meeting health and education basic needs are indicated in Table A.\* Sri Lanka has an exceptionally good record

TABLE A: SELECTED SOCIAL INDICATORS

	<u>1946</u>	<u>1953</u>	<u>1963</u>	<u>1973</u>
Adult Literacy (%)	58	65	72	78 <u>a/</u>
School enrollment (% ages 5-14)	41	58	65	86 <u>a/</u>
Life expectancy (years)	43	56	63	66 <u>a/</u>
Infant mortality (per 000)	141	71	56	46
Death rate (per 000)	19.8	10.7	8.6	7.7
Birth rate (per 000)	37.4	38.7	34.3	27.9
Natural population growth rate (%)	1.8	2.8	2.6	2.0
Population growth rate (%) (including migration)	2.3	3.3	2.5	1.6

a/ 1971

\* Note on data in this paper: Years for which data are presented are largely determined by their availability from Population Censuses or surveys. Data on demographic factors and employment for 1946, 1953, 1963 and 1971 are from the censuses. Data for 1970 (1969/70) are from the Socio-Economic Survey. Employment data for 1973 and 1975 are from the 1973 Labour Force Participation Survey and the 1975 Land and Labour Utilization Survey. Income distribution data for 1963 and 1973 are from the Surveys of Consumer Finances. Data on growth in output are from the Central Bank of Ceylon; output growth rates are computed from two-year average base and terminal periods.

in relation to its per capita income, on life expectancy, infant mortality, fertility and literacy. To compare its social indicators to those of other countries at different income levels, regression analysis was carried out on a 59 country sample of countries for which complete data sets were readily available. The results of that analysis are summarized in Figure A (next page). In each case Sri Lanka's social indicators, relative to its income, were the best among the 59 countries.\*

A. Pre-Independence "Initial Conditions" and  
Post-Independence Social Programs

The roots of Sri Lanka's social progress go back at least before Independence (1948), and to some extent to its Buddhist heritage. Food rationing was begun in 1942; primary education was made nominally (although not in practice) compulsory in 1901. In 1946, life expectancy in Ceylon was 43, while in India, for example, it was only 32 (for 1941-50); in 1946 adult literacy (over age 10) in Ceylon was 58%, while in India total literacy (all ages) was only 17%. Also, Sri Lanka has benefitted from a benevolent ecological situation. It has had, until recently, ample land resources and a relatively abundant supply of nutritious foods, particularly coconut, which provides about one-fifth of total calorie consumption. In addition, large export earnings and tax revenues from tea and rubber have, until recently, made it feasible for the Government to afford large expenditures for subsidies and services.

One recent article goes so far as to suggest that Sri Lanka's accomplishments are essentially due to these pre-Independence initial conditions, but gives Sri Lanka full 'credit' for slowing down growth by over-spending on social programs during the past fifteen years.\*\* It is true that

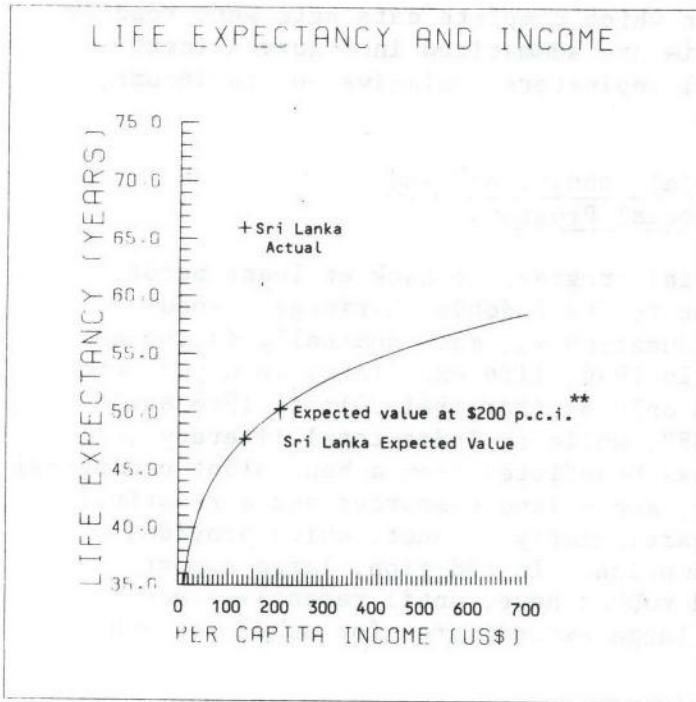
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\* See Appendix Table 1 for the relevant regression equations. A good deal of controversy has surrounded the "Physical Quality of Life Index," on which Sri Lanka scored extremely high, because of the arbitrariness of its choice of indicators and weighting among indicators. (The "PQLI" is explained in J.W. Sewell et al., The United States and World Development: Agenda 1977, Praeger, New York, 1977.) However, if one accepts the four indicators above (either as direct measures or as proxies for other measures) then Sri Lanka would be the highest scoring country in relation to its income no matter what weighting were used.

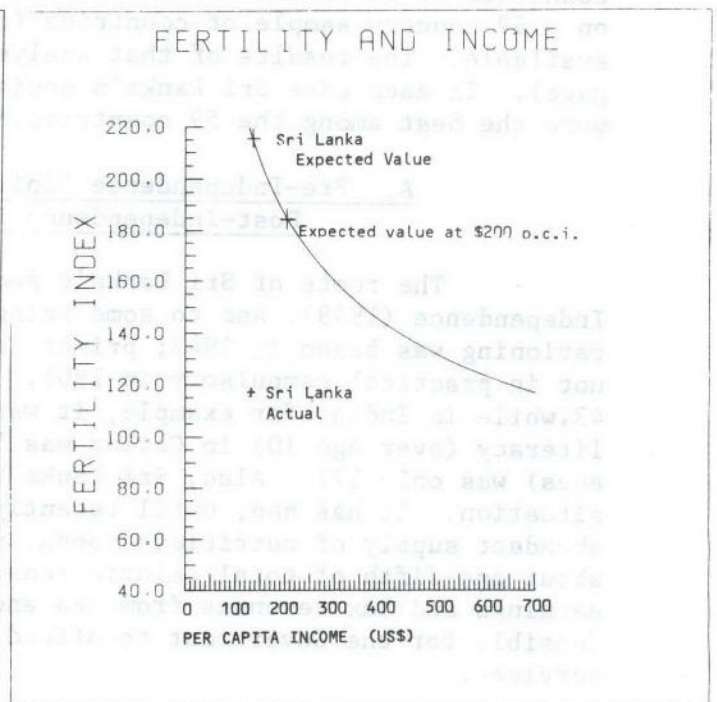
\*\* Morawetz, op cit. His argument of lower than expected improvement in social indicators rests primarily on a regression equation with an extraordinarily low  $R^2$  of .01. This equation does not include a term which would allow for the increasing difficulty of further progress as a country comes closer to maximum attainable levels. Morawetz dismisses this problem by noting that Korea, which also had good social indicators in the base year, made faster progress than Sri Lanka. Unfortunately, this use of the best performing countries (the fast growing East Asian countries), rather than a more typical group of developing countries, as the standard for comparison, detracts from Morawetz's otherwise quite interesting analysis.

Figure A: Sri Lanka's Social Indicators in Relation to Expected Values for Its Per Capita Income (\$130) in 1975

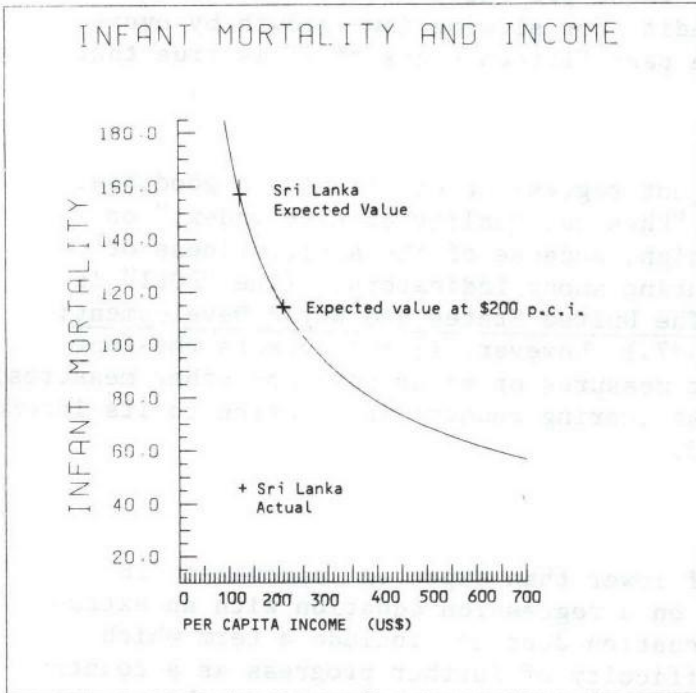
(The curves show expected values at any given income level.)



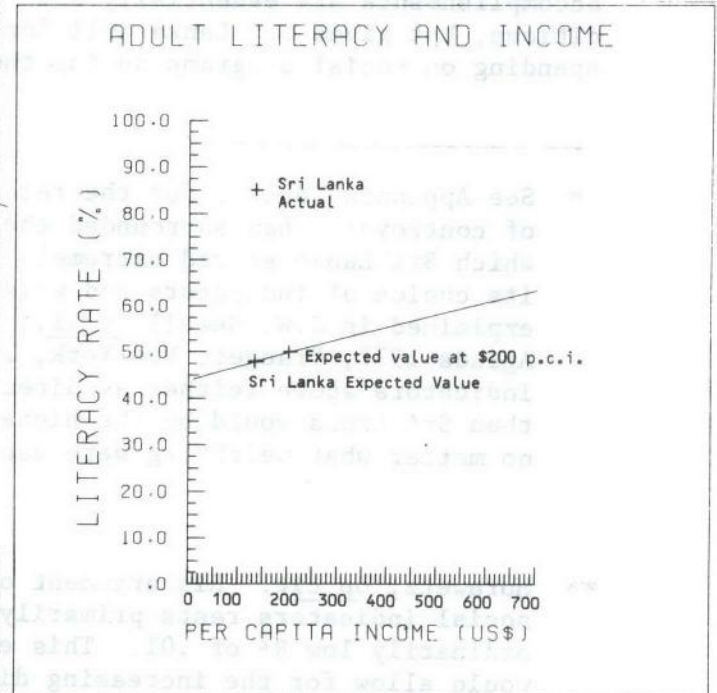
Sri Lanka was 39% (3.1 standard errors) above its expected value.



Sri Lanka was 47% (2.0 standard errors) below its expected value.



Sri Lanka was 67% (2.4 standard errors) below its expected value.



Sri Lanka was 78% (2.0 standard errors) above its expected value.

\* Source: Appendix Table 1. Sri Lanka social indicators are for 1971 rather than 1975, thus slightly understating its record for 1975 (except for infant mortality which had not declined).

\*\* For the relevance of expected values at \$200 per capita, see Section II, "Tradeoffs and Complementarities With Growth".

over the past fifteen years Sri Lanka has spent a remarkably high percentage - about half - of its current expenditures for its food subsidy, health and education programs. Health and education accounted for over 30% of current expenditures in the mid-1960s but have since declined to under 25%. Food subsidies also appeared to have declined substantially but in fact have not done so when correction is made for the implicit depreciation of the rupee since the late 1960's. However, as Table A shows, there has also been a good deal of progress in social indicators since independence. The links between social expenditures and social indicators are discussed in the following sections.

Moreover, the "initial conditions" of comparatively high literacy and life expectancy at Independence, are themselves the result of a previous political commitment, by the Ceylonese people and to some extent by the British colonial government, to the meeting of basic education and health needs. Increasing life expectancy to over 60 years or attaining near-universal primary education is a time consuming process. Success in implementing extensive health, education or small farmer programs may itself depend partly on investments in basic education over the previous generation. And while Sri Lanka's commitment to basic education and health services may have been unusual for the 1940's, many poor countries today have internal social pressures for the spread of these basic services at least as strong as those felt by Sri Lanka in the 1940's.

#### B. Education

Despite attempts at educational reform dating back to pre-Independence, Sri Lanka has essentially followed the education system it inherited from the British, although the medium of instruction has been changed to Sinhala and Tamil. The curriculum has been focussed primarily on the academic needs of the small minority going beyond the "O" (secondary) level, rather than on the development-oriented learning needs of the majority who drop out before then. The education system is highly centralized on a nationwide basis, with little involvement of local communities and little attention to non-formal education.\* And the serious problem of educated unemployment (Section IV) indicates that marginal social returns to the expansion of secondary education were low. In short, Sri Lanka has hardly fit the mold of a basic-needs education strategy.

On the other hand, Sri Lanka's educational accomplishments have been remarkable for a country of under \$200 per capita. As a result of high expen-

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\* See E.J. Wijemanne, "Educational Reforms in Sri Lanka", Marga Insitute, 1977.



ditures and high enrollment rates at all levels of education, adult literacy increased from 58% in 1946 to 78% in 1971.\* Of those in the 20-24 age bracket in 1971, 71% of men and 64% of women had at least some education beyond the initial four years of primary education, and 26% each of men and women had at least a secondary school ("O" level) certificate.\*\* The open access to education also contributed to social and economic mobility and thus to a weakening of the political and economic power of the traditional landed elite. More importantly, Sri Lanka's seemingly "irrelevant" education system appears to have contributed substantially to its accomplishments in health, fertility reduction and agriculture.

### C. Health

The coverage of the Sri Lankan health system and its impact on the reduction of mortality shown in Table A was dramatically illustrated when the number of reported deaths attributed to malaria averaged only about 5 per year from 1970-74, although the resurgence of malaria caused the number of clinically confirmed cases to average about 215,000. (The control of malaria alone in 1946 through DDT spraying had led to a drop in the crude death rate from 20 to 14).\*\*\* Similarly, maternal mortality declined from 16 per thousand in 1946 to 1.2 per thousand in 1970, partly because of the spread of maternity care; at present, more than two-thirds of births take place in hospitals or maternity centers.

Two aspects of Sri Lanka's health system seem particularly relevant for other countries now trying to address basic health needs. First, Sri Lanka has had both extensive coverage of the population through primary health care facilities staffed by paramedical workers and a strong back-up 'referral' system of clinics and hospitals manned by both physicians and paramedical workers. The need for the former has been too often neglected, but is now becoming a part of the accepted wisdom on health planning; with this change in thinking there is a danger that the pendulum might swing too far, and that in the planning of extensive health systems insufficient

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\* For comparative data on expenditures and enrollment rates, see M. Zymelman, "Patterns of Education Expenditures", World Bank Staff Working Paper No. 246, November 1976.

\*\* A major reform intended largely to address these problems was undertaken in 1972, but it ran into implementation problems and present resistance. As a result of this, and of the politicization by the previous government of the social science curriculum, the new government abandoned many of the changes made. However, it has appointed a commission to look into key education issues, so it is too early to determine how education policy will evolve over the next several years.

\*\*\* On the importance of malaria control in relation to other causes of the decline in Sri Lanka's mortality rate see R.H. Gray, "The Decline of Mortality in Ceylon and the Demographic Effects of Malaria Control", Population Studies, Vol. 28, No. 2, July 1974.

attention will be paid to the need for an adequate back-up supervisory and referral system.\* Second, the 'Western' health care system coexists with an important, and Government regulated, system of traditional 'ayurvedic' medicine. All economic groups make use of the ayurvedic system for certain kinds of illness or injury.\*\* The traditional health system appears in general to complement and to help take the strain off government 'Western' health facilities.\*\*\*

#### D. Food Subsidies

Sri Lanka has had food rationing for thirty-five years and has also subsidized wheat and sugar for much of the 1970's. The rice ration (or in the 1970's the wheat and rice ration) has varied frequently. It has generally stayed between two and four pounds per week, one to two pounds of which was free, with the remainder sold at a subsidized price. Unlike other South Asian countries, Sri Lanka's ration and subsidy programs have had effective coverage of the poor and of rural areas. The programs have been roundly criticized for the high percentage of the government budget it preempted (averaging about 20% of current expenditures in the past fifteen years if rough adjustment is made for overvaluation of the rupee) and for its disincentive effect on agricultural production. The former criticism appears well justified, since the ration coverage was nearly universal, while severe nutritional problems affected only low-income groups. The

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- \* Nevertheless, the cancellation from 1975-77 of training for "Assistant Medical Practitioners" at a time of large-scale emigration of doctors is one among several indications of a remaining imbalance favoring intensive, physician-based, curative health care in Sri Lanka. This imbalance is not surprising, since the extensive system developed from a conventional intensive system. Also, the health system, which is highly centralized, places little emphasis on community participation.
- \*\* The criteria determining how choices are made between Western and ayurvedic (and other indigenous) treatment in rural Sri Lanka are discussed in Celestine F. Arndt, "Health Seeking Behavior in Wegeriya". (Mimeo, George Washington University, 1977.)
- \*\*\* This is not meant to imply that ayurvedic medicine is in most circumstances as effective as Western medicine, or that traditional medicine in other countries should be presumed as effective as that of Sri Lanka. However, other countries have also made extensive use of traditional health systems, most notably China, as well as India (where Sri Lanka's ayurvedic system originated).

latter criticism appears less justified.\* Rice production grew by 5.8% during the 1960's. Comparatively high paddy prices and high subsidies on inputs provided an adequate incentive to farmers, by international standards, since the early 1950's, except for few years at the beginning of the 1970's.\*\*

Less attention has been paid to positive effects of the food ration and subsidy programs.\*\*\* In general, where incomes are close to bare subsistence levels and are variable (due in the case of Sri Lanka to the vagaries of rainfall and the varying demand on tea estates for labor), it seems quite plausible that a food ration program that reaches the poor effectively would help reduce malnutrition. This would occur partly through the direct effects of the ration in increasing consumption; also, to the extent that the ration substitutes for food that would otherwise have been bought and thus represents an income supplement, nutrition will still improve, since the poorer the family the larger the percentage of income spent on food. (In addition, among

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- \* The reasons that there was not the expected disincentive effect on prices in the 1960's from the large-scale imports were that the subsidy on rice plus the growth in population and per capita income generated a substantial amount of additional demand for foodgrains; and that Sri Lanka's worsening balance of payments situation kept pressure on the Government to increase domestic foodgrain production in order to save foreign exchange. See P. Isenman and H.W. Singer, "Food Aid: Disincentive Effects and their Policy Implications", (Economic Development and Cultural Change, Vol. 25, No. 2, January 1977) for a discussion of the conditions under which large-scale food imports will lead to a disincentive effect on domestic agricultural production.
- \*\* "...the (government procurement) paddy price has been above the c.i.f. (paddy) equivalent price since the early 1950's." P. Richards and E. Stoutjesdijk. Agriculture in Ceylon until 1975, OECD Development Centre, Paris, 1969, p. 54. On comparative rice/fertilizer ratios in 1970 see Peter Timmer and Walter P. Falcon, "The Political Economy of Rice Production and Trade in Asia", (Table 14.2, in Lloyd Reynolds (ed.), Agri-culture in Development Theory, Yale University Press, 1975. The heavy input subsidies - primarily on irrigation, fertilizer and credit - undoubtedly had a positive impact on output, but had severe costs as well. The costs were not only fiscal but also the inefficient allocation of these scarce resources. While rice production growth has been minimal since 1970, the major increase in rice prices during this period more or less rules out low prices as a major cause. However, the flour subsidy of the past several years has probably had a disincentive effect on production of minor cereal crops, particularly sorghum, for which there have been no price supports.
- \*\*\* In addition to the benefits discussed above, the ration also helped to keep wages in Sri Lanka relatively low and stable (until the early 1970's). The ration program originated on the estates and was initially conceived as a way to ensure wage stability rather than as an income supplement or nutrition program.

very poor families whatever of the income supplement that is not spent on food will still be spent in large part in meeting basic needs) Since a large percentage of deaths among children in poor developing countries are directly or indirectly related to malnutrition, an effective food ration program would be expected to reduce mortality, particularly in years of high food prices. Also, food is, politically, a special commodity. The severe political constraints to substantial redistribution of incomes or assets by taxation or other non-revolutionary means have often been noted.\* However, the constraints appear to operate less stringently when food, rather than incomes, is to be distributed, as indicated by experience with feeding programs in a number of countries, including the 'food stamp' program in the US.\*\*

These points are readily demonstrated in Sri Lanka. Data from the 1969/70 Socio-economic Survey show that in 1970, the ration provided about 20% of total caloric intake for families with household incomes under Rs. 400 per month (and 15% for those from Rs. 600-1,000 per month); even those in the under-Rs. 400 per capita category had average intakes of about 2,050 calories per day. Only about 25% of the population in that year had consumption under the generally accepted (but rather high) 2,200 calorie per day "requirement" and only 5% under 1900. In Bangladesh, for example, a country with much worse nutrition problems and a much higher death rate, 25% of the population consumes less than 1,700 calories.\*\*\*As an indication of the importance of food subsidies in increasing incomes of the poor, the 1973 Survey of Consumer Finances shows these subsidies to be equal to about 14% of the income of those with "spending unit" (a slight variant on "household") incomes under Rs. 400 per month. It is difficult, and not required for purposes of this paper, to separate out the improvements in welfare resulting

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\* See, for example, C.L.G. Bell, "The Political Framework" in H. Chenery, M.S. Ahluwalia, J.H. Duloy and R. Jolly, Redistribution with Growth, Oxford University Press, 1974.

\*\* Also, because of farm price support programs in food-surplus donor countries, food aid from these countries seems to be to a substantial extent additional - i.e. to result in a higher net total than if food aid were not a part of the aid package.

\*\*\* See D.R. Gwatkin, "Nutritional Planning and Physical Well Being in Kerala and Sri Lanka"; paper presented to an AAAS symposium on "Nutrition and Agriculture: Strategies for Latin America", February 1978.

from provision of subsidized food per se from improvements resulting from the income supplement implicit in the subsidies.\* In either case, nutrition will improve and some additional funds will be freed up for non-food expenditures, although to varying extents.

There is also evidence of increases in mortality from cuts in the ration and subsidy program during years of high food prices. In 1974 the death rate increased from 7.7 to 8.9 per thousand. Rice production in that year was much above average and overall calorie availability only slightly below average. But due to the rapid surge in international food prices, imports of rice and wheat flour declined substantially. This shortage of imports, combined with cutbacks introduced in 1973 in the per capita ration allocation, caused distribution through the ration program to decline by 15%. Off-ration sales of wheat flour (a government import monopoly) were terminated entirely, except to bakeries, from October 1973 to August 1975.\*\*. In many cases supply problems meant that people could not obtain their ration entitlements. Because staple foods are a basic necessity, the reduction of government grain sales caused a sharp increase in grain prices. In an attempt to acquire more food for distribution, the government then restricted inter-District rice trade, but this exacerbated the price increase in deficit Districts. The net result was that many poor people could not afford enough food for minimum nutritional standards. This suggests a link between the cut in the ration and subsidy programs and the increase in the death rate.

The hypothesized link receives statistical support from the multiple regression analysis reported in Appendix Table 2, which indicates that the price of rice is statistically related to changes in the death rate. If this hypothesis were valid, one would expect the death rate to be highest among those most dependent on government distribution programs. In fact, a disproportionately large part of the increase in deaths occurred among the Indian Tamil estate workers, who purchased rather than grew most of their food and had adopted wheat as the main staple of their diet.

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\* To the extent that recipients of rationed rice buy rice on the open market to supplement their ration, the marginal price they pay for wheat is the market price. In this situation, economic theory suggests that the ration would increase calorie and protein consumption by only the same amount as would an income supplement (of an amount equal to the rice subsidy). On the other hand, since the wheat subsidy has no quantity limit, the marginal price is still the rationed price, so there would be a larger increase in calorie and protein consumption than with an equivalent income transfer. (This result would most likely hold in spite of partially compensating cuts in consumption of other foods, since wheat is a relatively low cost source of calories and protein.)

\*\* Also, the ration for sugar was cut from 2 pounds per month to 1 in 1973, with very little available off-ration, and that at 3-5 times the 1973 price. The reduction in availability was due to the rapid rise in the import price. With these demand pressures, the price of domestic "jaggery" sugar undoubtedly multiplied as well. Sugar had been a major source of calories.

The regression analysis indicates that the sharp increase in the death rate cannot be dismissed as a random annual fluctuation.\* Similarly, such a spurt could not be caused by a gradual change in the age structure of the population, which occurs much too slowly, or by the relatively insignificant number of malaria or cholera deaths. While shortage of food distribution under government programs was no doubt not the sole cause of the increase in deaths, the results of the statistical analysis and the judgments of a number of Sri Lankan doctors and others with whom I spoke leave little doubt but that it was a major cause.\*\*

In sum, both the low death rate in general and its increase in 1974, indicate that the relatively equally distributed supply of foodgrains in most years, to which the ration and subsidy programs made a substantial contribution, has helped Sri Lanka to avoid the high degree of malnutrition-related deaths common in low-income countries. The new Government has taken the politically risky but fiscally highly desirable step of cutting the top half of the income distribution off the ration, partly to focus subsidies on those who need them and partly because the November 1977 devaluation and float of the rupee has almost doubled the direct budgetary cost of subsidizing imported foodgrains.

Sri Lanka's experience, both positive and negative, with food ration and subsidy programs suggests that while these programs are very expensive and must be approached with caution, they can have substantial benefits. Their feasibility in any given country would be determined in part by the extent to which political factors allow a relative focus on the poor (to hold down costs), and avoidance of disincentive effects on agricultural production. Agricultural production, budget, balance of payments and food aid prospects would obviously also be major determinants. To suggest consideration of ration programs is unlikely to be a popular recommendation; tough-minded economists are supposed to oppose such "handouts". However, most of the few non-Communist poor countries which have very low death rates - Sri Lanka, Burma, Mauritius (which had a low per capita income up to about 1970), Egypt and Kerala (although it is a state rather than a country) - all have heavy subsidies on foodgrains. (This is, of course, not to argue that a ration or subsidy program would be a sufficient condition for replicating the social accomplishments of these countries). Unfortunately, political, human resource, technological and other constraints mean that in most countries neither redistribution nor likely growth in output or agricultural pro-

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\* The 1974 death rate was 4.8 standard errors from its expected value, which is significant at .01. See Appendix Table 2. While there was a sharp increase in reported cholera deaths in 1974 (333 vs. 13 in 1973), this would have caused an increase in the death rate of only .025 per thousand.

\*\* The same general points also apply to a lesser extent to 1975, when food supplies and ration distribution were below average and the death rate, at 8.5, was still above the trend line.

duction will solve the problem of inadequate food consumption by poor families within any reasonable time frame.\* If targeted ration or subsidy programs have fewer political constraints than other redistribution programs and if they appear feasible by the criteria discussed above, they deserve careful consideration.

#### E. Linkages Among Steps to Meet Basic Needs

A major tenet of basic needs approaches to development is that there are important reinforcing linkages among the steps required to meet basic needs. Emphasis is often put on linkages at the input level, as in integrated rural development projects, or in coordination between education and health programs. This kind of linkage, while undoubtedly present to some extent in Sri Lanka, seems rather deficient there and certainly does not stand out as a major cause of its social accomplishments. Another important aspect of basic-needs linkages is at the output level. Multiple regression analysis of the fifty-nine country sample referred to previously indicates a series of such linkages. While the application to particular countries of results of cross-section regression analysis must be approached with caution, the results (reported in Appendix Table 1) were statistically highly significant and fit with widely accepted behavioral hypotheses.

The regression results suggest that literacy has an important impact on life expectancy and on infant mortality (after correcting for the effect of income). This is not surprising, since a high percentage of deaths in developing countries is related to home hygiene and other health and nutrition practices, and since literacy increases knowledgeability and ability to screen and evaluate new information about changing these practices.\*\* The regression equation linking literacy to life expectancy suggests that Sri Lanka's very high literacy rate (78% rather than the expected value of 36%) would bring the expected value of life expectancy at Sri Lanka's income level from 44 to 58. Thus, education, and factors associated with it, appear

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\* See M. Selowsky and S. Reutlinger, Malnutrition and Poverty, World Bank Occasional Paper, No. 23, 1976. While there is some dispute about aspects of their methodology, no serious challenges have been raised to their conclusions.

\*\* The regression results and the Sri Lankan experience suggest that education may not have to be "relevant" to development in order to have a positive impact on it. Primary and secondary education which, as in Sri Lanka, is not applied to development problems or to the needs of the majority terminating at these levels is undoubtedly less desirable than that which is. But, it appears that in the developing countries, as previously (and to some extent currently) in the developed countries, students manage to acquire useful learning skills in spite of irrelevant curricula; the same might even be said for rote learning which, for all its inadequacies, does teach some skills in remembering and following complicated instructions.

to explain a large share - the equation suggests about two-thirds - of the 22 year difference between its expected and actual (66) values.\*

No regression analysis has been carried out on the linkage of primary education (literacy) to growth in agricultural production. However, there is a growing body of empirical studies indicating that education has a positive effect on agricultural output when technology is changing.\*\* The reasons why literacy increases the utilization of improved agricultural practices are essentially the same as those why it increases the utilization of improved health practices. Given the risk aversion of small farmers and the relatively high financial risks of input-intensive new agricultural technologies, education would appear helpful in absorbing, accurately recalling and evaluating proposed new technologies. It may also have an effect on attitudes toward trying things that are new. Thus, high literacy could well be one of the reasons that rice yields in Sri Lanka were the highest in South Asia in 1960 and that rice production increased by 5.8% annually during the 1960's.

The regression results show that longer life expectancy contributes to lower fertility rates (again after allowing for the effect of income).\*\*\* The impact of longer life expectancy (or lower infant mortality) on fertility relates primarily to the expectation that children will survive into adulthood.\*\*\*\*These results indicate that Sri Lanka's high life expectancy appears to explain about two-thirds of the difference between its expected and (much lower) observed fertility levels. While literacy had no additional explanatory power when added to the regression analysis, it has a strong indirect effect through its impact on life expectancy.

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\* The equation ascribes to education the effects of other variables, such as health practices, affected by or otherwise correlated with education. Separating out the ways in which education interacts with these variables is well beyond the scope of this paper.

\*\* See Finis Welch, "Human Capital: Incentives and Response", in T. Schultz (ed.) Distortions of Agricultural Incentives, Indiana University Press, forthcoming. The reasons suggested for the positive effect of education on adoption of improved technology are not meant to imply that the farmers who are illiterate are not "rational" in their decision making or not responsive to opportunities to increase their income.

\*\*\* The regression analysis of fertility rates reported in Appendix Table 1 is a slight modification of that of D. Morawetz "Basic Needs Policies and Population Growth", forthcoming in World Development.

\*\*\*\* See Robert Cassen, "Population and Development: A Survey", World Development, Vol. 4, Nos. 10 & 11, November 1976, for a survey of the literature on the relationship of development to fertility.



Recent analyses of the relationship of development to fertility suggest some hypotheses which appear applicable to Sri Lanka and which would amply explain the remaining difference between Sri Lanka's expected and observed fertility rates.\* One is the effect of the level of female education. (This effect is additional to that of literacy per se, which is attained with only primary school education or less.) The 1971 Census shows that, for example, among women 40 to 44, those who had reached "0" level qualifications had an average of 3.6 children, while those with only primary education had an average of 5.1, and those with no schooling an average of 6.0.\*\* In addition, female education has contributed to the relatively high female labor force participation rate (a crude rate of 22% in 1975, up from 16% in 1963), to the increase in average female age at marriage (23.5 in 1971, compared to 22.1 in 1963) and to the related decline in the percentage of women married.\*\*\* Another apparent reason for low fertility has been the ration (and food subsidy) and health programs, which have lowered the old-age and disability insurance motivation for having large families. A further reason is Sri Lanka's family planning program, which works largely through the health system. Overall, the rapid decline in fertility shown in Table A may be attributed largely, although not completely, to the direct and indirect effects of Sri Lanka's social programs.

In sum, the strong linkages among basic needs suggested by the inter-country regression analysis and by the case of Sri Lanka indicate substantial indirect benefits from health and education programs. These linkages raise some interesting questions of emphasis and sequencing for development strategies in other countries. For example, it is often said that desperately poor countries like Bangladesh should concentrate their limited development efforts on agricultural production and family planning. These undoubtedly are key priorities. But there are extremely few countries which have experienced rapid growth

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\* Cassen, op. cit.

\*\* Unfortunately, the analysis in the 1971 Census was not multivariate, and thus did not allow the effect of female education to be separated from other variables such as income. Data from the 1969/70 Socio-Economic Survey indicate that female education is not acting simply as a proxy for female employment, since middle education levels show both low employment and low fertility. The age group of 40 to 44 was used to show that higher levels of female education reduce completed family size, rather than merely delaying births.

\*\*\* The high level of unemployment among young people may also contribute to the increase in the average female age of marriage, due to the delay in a couple's ability to support themselves; however, there was no comparable increase in the male age at marriage. Another suggested cause for the increase in female age at marriage and decline in the percentage of women married is a demographic shift in which there are relatively fewer men of appropriate age for marriage (which is generally about five years older than the women). See, M.B. Duza and C.S. Baldwin, Nuptiality in Population Policy, (Chapter 4), Population Council, New York 1977.

in agricultural output without substantially higher literacy than Bangladesh's level of under 30%. And there are equally few which (in the mid-20th century) have experienced a rapid decline in population growth without a substantially lower infant mortality rate than Bangladesh's 140+ per thousand.

#### F. Substitution Among Steps to Meet Basic Needs

Since basic needs has become a focus for analysis so recently, little analysis has been done on substitutability among what have come to be considered as the minimum package of steps to meet health and education basic needs. Among the elements that have been identified as essential to meeting basic needs are potable water (as a means of achieving the broader basic need of good health) and "participation", which some consider to be a means to achieving basic needs at low income levels and others to be a basic need per se.\*

In general, the quality and quantity of drinking water available to Sri Lankans is considered inadequate by the WHO for good health.\*\* However, Sri Lankans tend to a surprising extent to be aware of the dangers of polluted water and frequently treat or boil it, particularly for use by young children. Also, there is general awareness of when medical attention is needed to treat gastro-intestinal and other water-borne diseases\*\*\*. These health practices seem most plausibly related to the high degree of literacy (basic education)\*\*\*\*For example, infant mortality, which is closely linked to water borne diseases, is highest in those areas (i.e. the "estates") where education is lowest. Thus literacy and the primary health care system appear to substitute in part for potable water supply in meeting basic health needs.

There is also little apparent participation in Sri Lanka in local development institutions. As noted previously, both education and health are highly centralized and "top down" in approach, with little local involvement. In addition, the experience of local agricultural institutions has been disappointing, from the cooperatives to the Cultivation Committees and Agricultural Productivity Committees, which were recently disbanded by the new government on grounds of inefficiency and excessive politicization. It

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\* See ILO, 1976, op. cit. and Haq, op. cit.

\*\* "Sri Lanka Water Supply and Sanitation Sector Study", World Health Organization, 1977.

\*\*\* Arndt, op.cit. indicates that a quite rational approach to when and where to seek treatment often coexists with traditional beliefs about the role of spiritualism as the cause and/or cure for some diseases. (The same point could be made about a large percentage of the population in developed countries as well).

\*\*\*\* This is not to say that potable water is not important, but it does have some potential implications for priorities among basic needs. Similarly it is not to say that literacy is a necessary condition for acquiring knowledge about water pollution, or that literacy is a sufficient condition for good hygiene.

has even been argued by some who view participation as a necessary aspect of a basic needs approach that Sri Lanka is not a valid example of one because of its relative lack of participation.\*

To some extent it is true that Sri Lanka has accomplished more, in terms of health, education and rice production than would be expected, given the lack of effective local participatory institutions in these areas. In part education has probably substituted for some of the exchange of information and for the encouragement to change health or agricultural practices that occurs through local participatory institutions. Also, in education and health centralization has probably had some advantages as well as disadvantages, since it helped to avoid or mitigate situations where the most prosperous and best organized localities would end up with the best services. It is apparent, though, that more could have been accomplished in changing health or agricultural practices or in raising resources for local self-help projects if there had been more effective local development institutions.

The picture above is, however, somewhat misleading. If we define the term participation to include the political system as well as development institutions, then Sri Lanka is a highly participatory society, and much of its social accomplishments can be traced to local participation.\*\* Sri Lanka's democratic political system is highly competitive at the local as well as national level. Interest among the generally-literate populace in local and national elections is high. MP's and Village Council chairmen seek to barter assistance to their constituencies for political support for themselves and their parties. This assistance includes, in part, lobbying for schools, clinics and agriculture programs. The power of the local political system and the relatively broad access to it has substituted for the functions, and in some ways inhibited the roles of, local institutions with an explicit development orientation, of which there was, though, no dearth. During the 1970's, these institutions came to be increasingly politicized, so that, for example, the agricultural committees became less focussed on, and less efficient at addressing, their development purposes. This coincided with a period of poor growth in agriculture, to which the institutional problems may well have in some way contributed. Thus, as of 1977-1978, the weak status of local institutions may give a misleading picture of their role in Sri Lanka's development.

#### G. Unmet Basic Needs of Estate Laborers

Sri Lanka's progress in human resources should not obscure the fact that it remains a very poor country where malnutrition is such that many people die from nutrition-related causes in food-short years, where the

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\* This view is reported, but not necessarily endorsed, in "Sri Lanka: An Experience in a Need-Oriented Development-Achievements, Conditions, Limits, Alternatives", International Foundation for Development Alternatives, forthcoming.

\*\* The discussion in this paragraph draws in part from J.S. Blackton, "Local Government and Rural Development in Sri Lanka", Rural Development Committee, Cornell University, 1974.

infant mortality rate has stagnated at about three times that in Northern Europe, and where dropout rates from primary school remain high. The most severe human resource problems tend to be found on the tea "estates". The vast majority of estate workers are "Indian Tamils", whose families were brought by the British to Sri Lanka within the past century specifically to work on the Estates. Whether the estate laborers fall into the bottom third of the income distribution in any given year depends largely on the number of days of work available for them on the estates. When there is a strong demand for labor, as is now the case, their household income tend to fall roughly in the middle of the income distribution. However, their health, education and nutrition\* status is much worse than that of the population as a whole. For example, their death rate was 55% above that of the country as a whole for 1973 and 130% higher during the food-short year of 1974. In 1969/70, 52% of estate women had no schooling at all, compared to 23% in the rural sector (excluding estates) and 15% in the urban sector. Only 1.5% of the estate population had "0" level qualifications, compared to 7.5% for the population as a whole. Also, low income estate dwellers get much lower benefits from government subsidy and service programs than does the rest of the population, (even before taking account of the indirect incidence of the heavy taxes on tea).\*\*

The reasons are easy to see: the cultural and physical isolation of the estates; lack of political power to get a fair share of services and subsidies, due to the denial of the vote to the Indian Tamils at independence; the conflict for mother between working and looking after their young children; low economic returns to education, partly because children do not have to be literate to have first priority for work on the estate on which they live; and the fact that funds for improving health, education and shelter directly reduced the profits of the tea estates (except for those health measures which increased revenues by more than costs). Nevertheless, Sri Lanka's general commitment to and success in meeting basic needs calls added attention to the disparity between the conditions of estate laborers and those of the rest of the population. Fortunately, there is some hope for improvement. A large percentage of the Indian Tamils are due to return to India under a long-standing

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\* The 1969/70 expenditure survey data suggest calorie consumption on the estates to be above average. However, not much faith can be put in this data. The number of wage earners per household on the estates was about double that off the estates, so their calorie requirements were substantially higher. A higher incidence of nutrition-sapping diseases and less access to non-market sources of food not counted in the surveys also account for some of the apparent higher calorie intake on the estates in 1969/70 and 1973. The "Sri Lanka Nutrition Survey" conducted from September 1975 to March 1976 found nutrition status to be substantially lower on the estates than in other rural (or urban) areas. (U.S. Center for Disease Control, 1976.) This strengthens the argument above on the effects on mortality of the cutbacks in food distribution. It is likely that a nutrition survey in 1969/70 would also have shown above average malnutrition in spite of the above average calorie consumption.

\*\* P.J. Alailima, Fiscal Incidence in Sri Lanka, ILO, forthcoming.

agreement between the two countries.\* With the need to recruit Sinhalese workers to the estates it is becoming increasingly necessary for social services and housing to be improved closer to average Sri Lankan rural levels. Also, the nationalization of estates over 100 acres (carried out from 1973-1975) is forcing the government to take a more active role in social services on the estates.

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\* Personal communications from two observers who have recently visited South Indian estates indicate that there is a substantial need for additional estate labor there and that living conditions are generally well above those on estates in Sri Lanka.

## II. TRADEOFFS AND COMPLEMENTARITIES WITH GROWTH

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The tradeoff between growth and equity in Sri Lanka is not as straightforward as is often assumed. In 1963/4-1964/5, total social programs (including the food subsidy) averaged a very high 54% of current expenditures, and 11.3% of GDP. Sri Lanka's excessive expenditures for social programs have been compared to other countries' excessive expenditures for defense (under 2% of the budget in Sri Lanka); both have a high opportunity cost but the social expenditures seem less wasteful. Since that time, education and health expenditures have been declining fairly steadily as a percentage of total current expenditures or GDP. The case of the food subsidy is more complex. It too has been declining relative to total current expenditures and GDP, and in physical quantities per capita as well.\* But this decline has been largely offset by the continuing implicit depreciation of the rupee, which means that rupee costs of food imports in recent years are substantially understated.

The growth record of the 1960's (4.4% in GDP or 2.1% per capita) is quite respectable, particularly the 5.8% growth in rice production. Much of this GDP increase was eroded by declining terms of trade (with stagnant tea prices and increasing import prices) so that real national income corrected for terms of trade grew by 3.4% rather than 4.4%. However, GDP growth (before the terms of trade adjustment) is probably the best available single statistic to measure a country's own efforts.\*\*

From 1970-76, on the other hand, growth deteriorated,\*\*\* due primarily to three factors: poor growth policies, which discouraged private sector investment, reduced Government savings, and allocated large sums to highly inefficient public sector industries; the devastating effects of poor monsoons

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\* The share of the food subsidy in current expenditures spurted back up over 20% in 1973 and 1974, equivalent to about 4% of GDP (even before adjustment for the depreciation of the rupee). However, the analysis above the relationship between the ration distribution and death rates makes it hard to argue that actual distribution should have been less then.

\*\* Shifts in terms of trade tend (except in the case of export cartels) to be beyond a country's control. Although one must consider how countries adjust to these shifts, there is no statistic that separates out the effect of changes in terms of trade from the effect of country responses to the changes. Sri Lanka's major policy failing during the 1960's was an inadequate and inappropriate adjustment to the declining price of tea export (which was due to increasing world supplies in the face of slow growth in demand). Poor policies led to decline in tea production and to inadequate and inefficient diversification of the economy away from tea. The inefficiency was primary in indiscriminate import substitution with insufficient attention to comparative costs. Overall, though, Sri Lanka's per capita growth for 1960-70 was ninth of thirty countries under \$250 per capita (in 1975) for which data were available. See D. Morawetz, "25 Years of Economic Development 1950-75", World Bank, 1977, p. 81.

\*\*\* Real GDP growth from 1970-77 was 3.0% annually, or 1.7% per capita. However, agriculture and industry, the key productive sectors, grew only at 1.9% and 2.3% respectively.

from 1971-73, then followed by the surge in international prices of grains and petroleum; and a political situation not conducive to firm economic management, partly because of the insurrection and policy differences within the Government coalition. The share of education and health in the budget declined more rapidly than during the 1960's, as did food distribution per capita and nutritional standards. Per capita expenditures on health and education appear to have declined (in real terms).\*

This is not to say that the growth record of the 1960s was outstanding, that the problem of the 1960s did not also contribute to the slow growth in the 1970s, or that the expense of the social programs was not a drag on government budgets or, to some extent, on growth. Nevertheless, the contrasting experience of the 1960s and 1970s suggests that the poor growth performance of the 1970s had more of a negative impact on social programs than the social programs did on growth.

It is true, though, that the same political and cultural factors that led to Sri Lanka's social accomplishments did create an important constituency for social programs; this constituency prevented a more rapid decline in the percentage of the budget used for these programs through either general cutbacks in per capita assistance or through more targeting of coverage to those in need. Regarding per capita cutbacks, the discussion above indicates that sharper per capita cuts would have had serious social costs, to be offset against fiscal and balance of payments benefits. Regarding better targeting, one might well wish, for example, that restricting the ration to the needy would not have lost votes for the party in power.\*\* The desirability of careful targeting of subsidies is one of the obvious but nonetheless important lessons for other countries to be drawn from the experience of Sri Lanka (and of numerous other countries).

It is also true that the heavy social expenditures have to some extent had a net negative impact on pricing and other policies. To some extent they have encouraged excessive emphasis on short-term budget and foreign exchange problems, at the expense of longer-run problems, and have fostered a "welfare mentality" which has sapped individual or group self-help efforts; (e.g. see the subsequent discussion of the role of government programs in contributing to unemployment). On the other hand, it is easy to slip into the trap of blaming all of

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\* The GDP deflator, the single best inflation indicator available, real expenditures per capita declined by about 20%. However, this overstates the decline in the level of services, since the GDP deflator implicitly lumps together declines in the level of services with declines in the living standards of government health and education personnel.

\*\* One should not be too quick, however, to draw conclusions from Sri Lanka's experience about the incompatibility in poor countries of an open democratic political structure and good growth policies. The poor growth performance in the 1970s undoubtedly contributed to the victory of the UNP in the 1977 elections. While increasing welfare programs are a good means of attracting votes, the voters were apparently aware that these programs are not sufficient compensation for economic stagnation.

Sri Lanka's policy problems on the social programs. For example, it is unclear that Sri Lanka has had worse than average pricing policies for a low-income country. As has been noted, its farm price policies have been much better than average, and because of the "Foreign Exchange Entitlement Certificates", its foreign exchange pricing policy has been substantially better than the official exchange rate would suggest. Similarly, the welfare-mentality argument, which has been hotly debated in the developed countries since before the days of the Social Darwinists, can also be carried too far. It hardly seems consistent, for example, with the good growth record of the 1960s. Also, while the pressures of financing social programs had some negative effects on policies, they also had some positive effects, as in putting on pressure to increase agricultural production. Indeed, the standard "disincentive" argument against foreign aid is based on the idea that aid takes off the pressure that otherwise would force improved policies.

If Sri Lanka had spent less on social programs, it would have had more to spend on directly productive investments. How much faster growth would have been is a contentious question. Let us assume that expenditure on these programs (including the food subsidy) had been cut roughly in half; this would have made available an average amount of about 5% of GDP over the past fifteen years. If nothing else changed, then the return on that 5% of GDP would be expected to be lower than the average return for the economy as a whole, for two reasons: some of these funds would have been used for (public or, in the event of tax cuts, private) consumption or for other low-productivity Government expenditures; and, since the most attractive projects tend to be funded first, those which would be funded from the additional investment would tend to be less attractive. In the 1970s, particularly, it seems implausible that the funds would have been used very efficiently. On the other hand, it might be argued that the reduction in social expenditures would be caused by broader policy reforms that would increase returns on investment in general, including those resulting from the reduced social programs. If we assume a time period for cuts in social programs and increases in investment of as long as 30 years, then per capita income would have been expected to rise at roughly 1-1 1/2% faster per year. The lower increase would be consistent with a lower than average return on investment, and the higher increase with a higher than average return.\* Per capita income in 1975 would have been \$175-\$215, or 35-65% higher than its actual level of \$130.\*\*

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\* Expected per capita income equals:

$$PCI_{1973} \times \left(1 + \frac{.05}{ICOR}\right)^{30}$$

\$175 is derived from an ICOR of 5, taking moderate account of increases in consumption and/or declining marginal returns. \$215 is derived from an ICOR of 3, which would assume a substantial improvement in growth policies. The average ICOR for the past 15 years, 4.2, would yield an expected per capita income of \$185.

\*\*\$130 is the World Bank's estimate as reported in Morawetz, Twenty Five Years of Economic Development 1950-1975. It is based on an adjustment to the official exchange rate (Rs. 7.05 per U.S. dollar) to take account of the implicit devaluation represented by the "Foreign Exchange Entitlement Certificates". However, the same 35%-65% increase would apply if a different exchange rate or a different terminal year for the thirty year period were applied.



It has been argued that without the social expenditures, Sri Lanka could have grown as fast as some East Asian countries, such as Malaysia or Korea and that, thus, the benefits would have been many times more than just \$45 - \$85 per capita. It seems inconsistent, though, to argue that expenditures relevant to human capital development should have been lower, because they were a drain on growth, and at the same time to argue that Sri Lanka's growth should be judged by the standards of countries whose rapid growth is widely attributed to their human capital. In addition, to imply that what stood between Sri Lanka and Korea's growth record was Sri Lanka's social expenditures would be to attribute to them all the economic, cultural and political differences between South Asian countries (among which Sri Lanka's long-term per capita growth rate looks fairly good) and the fast growing export-oriented East Asian countries. Unlike the fast growing East Asian countries, but like India, Sri Lanka has had a Fabian ambivalence toward the private sector; an over-emphasis on direct controls in place of price signals and on import substitution rather than exports; serious problems with labor-management relations; serious administrative and institutional inefficiencies; and active competition between parties for votes, based to a substantial extent on populist programs and on patronage. In addition, these East Asian countries did not face the burden of having almost 30% of GDP in 1960 in export crops which were to experience a devastating secular decline in prices over the next fifteen years.

One might well wish that Sri Lanka had grown as rapidly as the fast growing East Asian countries, and without adopting the relatively authoritarian political structures that may or may not be related to their growth; one might also wish that Sri Lanka could have combined this growth with more carefully targeted social programs that would have caused even better performance on life expectancy and other social indicators than was actually achieved. But this is to say, in effect, "if Sri Lanka were not Sri Lanka".\*

It should be noted that the \$45-\$85 estimated potential increase in per capita income estimated above is overstated by taking no account of offsetting likely positive effects of social programs on growth. For example, there was the likely positive impact of education (literacy) on rice production. More importantly, with less progress in health and education, Sri Lanka would, as discussed previously, have had a higher fertility rate, thus reducing both past and prospective growth of per capita income. And, since the marginal share in government services and subsidies of the poorest half of the population is far higher than their share of incomes (see Section III), it is unclear that the total incomes (including subsidies and services) of the poor would be significantly higher at all.

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\* It has also been argued that the social programs led to neglect of the export sector. However, this seems hard to understand, since the increasing prices for food imports together with the weak tea prices should have given strong pressure for increased emphasis on exports as well as on import substitution. And surely no one has accused Sri Lanka of putting wages or social programs for tea workers ahead of tea earnings.

It is difficult to say what effect the sharp cut in social programs over a thirty year period would have had on social indicators, since Sri Lanka's record of commitment to basic needs programs goes back so far. If social expenditures had been cut in half (and if, as is likely, political constraints had prevented a sharp redistribution of these programs from the population as a whole to the poor) caloric intake and health and education services received by the poor would clearly have been less. While unemployment would probably have been lower (for reasons discussed in Section IV), migration to urban areas would probably have been higher. There would be some offsetting social benefits from an increase in growth, but the gains from an increase from \$130 to \$175-\$215 would be quite small. (The difference in the expected values of the social indicators in Figure A can be seen by comparing the expected value at \$200, marked on the curves, with the expected value at \$130).

There is room for disagreement on the tradeoff between a per capita income, of say, 35%-55% higher over 30 years and a worsening, of unknown extent, in life expectancy, infant mortality, literacy, and fertility. This paper does not resolve the issue, although it does show that the answer is not so simple as is often believed. There is little room for disagreement though, on whether (political factors aside) social accomplishments could not have been achieved at a lower cost, such as through a more selective ration program. This would have allowed maintenance of social objectives and increased growth. It would also have helped to limit growth in unemployment. There is also little room for disagreement on whether Sri Lanka's social programs would not be much better off today if general economic management, and resultant output growth, had been better. Even though social programs do not appear to have been the primary cause of the shift from the relatively good growth performance of the 1960s to the poor growth performance of the 1970s, the long-run ability to sustain social programs depends, in part, on the long-run ability to sustain revenues and, thus, output growth.

### III. INCOME DISTRIBUTION

The household surveys of 1953, 1963, 1969/70 and 1973 show a continuing improvement in the distribution of incomes, as indicated by the following table:\*

	<u>1953</u>	<u>1963</u>	<u>1969/70</u>	<u>1973</u>
GINI Coefficient	.46	.45	.41	.35
Income Share of the Poorest 20%	5.2%	4.4%	5.5%	7.2%

It is interesting to note that in 1963, when the GINI coefficient was at the not very low level of .45, Sri Lanka's social indicators (Table A) were already exceptionally favorable for its income level. This illustrates that equality of income distribution and satisfaction of basic needs are quite different things, although improving income distribution can be an important means of meeting basic needs.\*\*

The record of improvement in Sri Lanka's income distribution seems extraordinary. A study carried out at the World Bank indicates that Sri Lanka was the only country of the 35 countries for which data were available where the marginal share accruing to the bottom 60% of the population (between 1963 and 1973 in the case of Sri Lanka) was higher than 60%.\*\*\*However, some recent analysis has questioned these findings.\*\*\*\*The major argument is that the distribution of real consumption (in constant prices) worsened between 1963 and 1973, and the real consumption of the bottom quintile declined.

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\* 1953, 1963 and 1973 data are from the Surveys of Consumer Finances of those years. Data from them are by "spending unit", which differs slightly from a "household". (Data by "income receiver" are considered less reliable.) The data for 1969/70 are from the Socio-Economic Survey of 1969/70, and are by "household".

\*\* Regression analysis of a 47 country sample for which data were available on both income distribution and social indicators shows a simple correlation of the income share of the poorest 40% with life expectancy to be 0.27 and with adult literacy to be 0.26 (both significant at .10).

\*\*\* H. Chenery, N. Carter and M. Ahluwalia, "World Growth and Poverty", forthcoming.

\*\*\*\* See Lee, op. cit.

Average Consumption Expenditure by Quintiles, 1963 and 1973  
(Rupees per 2 months per spending unit)

Percentage of spending units	1963 (1)	1973 (at 1963 prices) (2)	Ratio of cols. (2):(1)
0-20	191.3	163.8	0.856
20-40	248.7	276.4	1.075
40-60	334.7	337.8	1.009
60-80	430.4	440.2	1.023
80-100	717.3	829.2	1.156
Average	382.6	409.5	1.070

Source: E.L.H. Lee, op. cit., Derived from the 1963 and 1973  
Surveys of Consumer Finances.

While one might have thought that a higher share accruing to the poor of a higher GDP (in constant prices) must mean higher real consumption for the poor, this is not necessarily the case. What happened essentially is that in 1973 the cost of living of lower-income deciles rose by more than that of the population as a whole, primarily because the relative price of foodgrains had increased. Thus, if a subsistence rice farmer had slightly less food to eat in 1973 than in 1963, he would still have had a higher imputed income, while incomes of the poor (except paddy farmers who produced more than their own requirements) rose more slowly than the prices of wheat and rice.

The contradiction between trends in the distribution of income (at current prices) and in the distribution of consumption (at constant prices) is due not only to this shift in the relative price of foodgrains. It also reflects a likely understatement of the degree of income inequalities. Comparison of expenditure (consumption) and income data for upper-income groups suggests an increase in 1973 (over 1963) in the degree to which their incomes were understated; this is not surprising, given the much greater emphasis in 1973 on redistribution as a government policy.\*

In a narrow sense - i.e. the comparison of 1963 and 1973 - the critics have a strong case. But although 1973 was chosen as the terminal year because of the availability of data from the Survey of Consumer Finances, it was not typical of the late 1960s or early 1970s.\*\* It was the lowest year

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\* Both the 1963 and 1973 Surveys report understatement of incomes of the upper-income groups to be a problem; this is an endemic problem in sample surveys of incomes.

\*\* The problems with the 1973 data illustrate, inter alia, the dangers both of excessive reliance on distribution of incomes at current prices and of excessive focus on years for which good data are available, but which, as is often the case, are untypical. This is a particular problem for economies dependent on the monsoon, since over a decade yearly fluctuations in food availabilities can be as large as trend changes, and since in these economies the real consumption of the poor tends to depend heavily on food availability. Expenditure data are preferable to income data in handling both this problem of relative prices and the problem of understatement of incomes by upper income groups.

since 1966 in per capita foodgrain availability. In addition, the 1973 Survey was conducted during a seasonal low point of supply, while that of 1963 was roughly at the time of a major festival.

The 1969/70 Socio-Economic Survey, on the other hand, came in an unusually good year. Nevertheless, the distribution of income in 1970 was probably about typical for the good growth years of the end of the 1960s. Some relatively minor questions have also been raised about the data in the 1969/70 Socio-Economic Survey, particularly its exclusion of single person 'households' (only about 5% of the total); but these questions are not such as to discredit the improvement in distribution of income that it reports. The major economic cause of the improvement appears quite plausible: relative stability in formal sector wages (i.e. in the middle to upper middle part of the income distribution) at a time when rural incomes of small farmers were increasing (due to fairly rapid growth in production of paddy and other non-estate crops without a decline in crop prices). Food balance sheets also indicate an improvement in three-year averages of per capita food consumption. Per capita food consumption was 1,924 calories for 1951-53, 2,040 calories for 1961-63, and 2,201 calories for 1971-73.\*

In addition, Sri Lanka's extensive service and subsidy programs had a significant equalizing influence on incomes. A comprehensive recent study\*\* based on a critical analysis of relevant survey data concludes that the distribution of government subsidies and services was substantially more equal than that of income, even before taking account of the effect of taxes, (See Figure B on next page).\*\*\* Taking the distribution (incidence) of all taxes, subsidies and services as a whole, there was a reduction in income inequality of about one-fifth.\*\*\*\* In effect, social programs appear to have substituted to some extent for the more radical redistribution of assets and incomes which some have hypothesized to be essential to meet basic needs in low-income countries.

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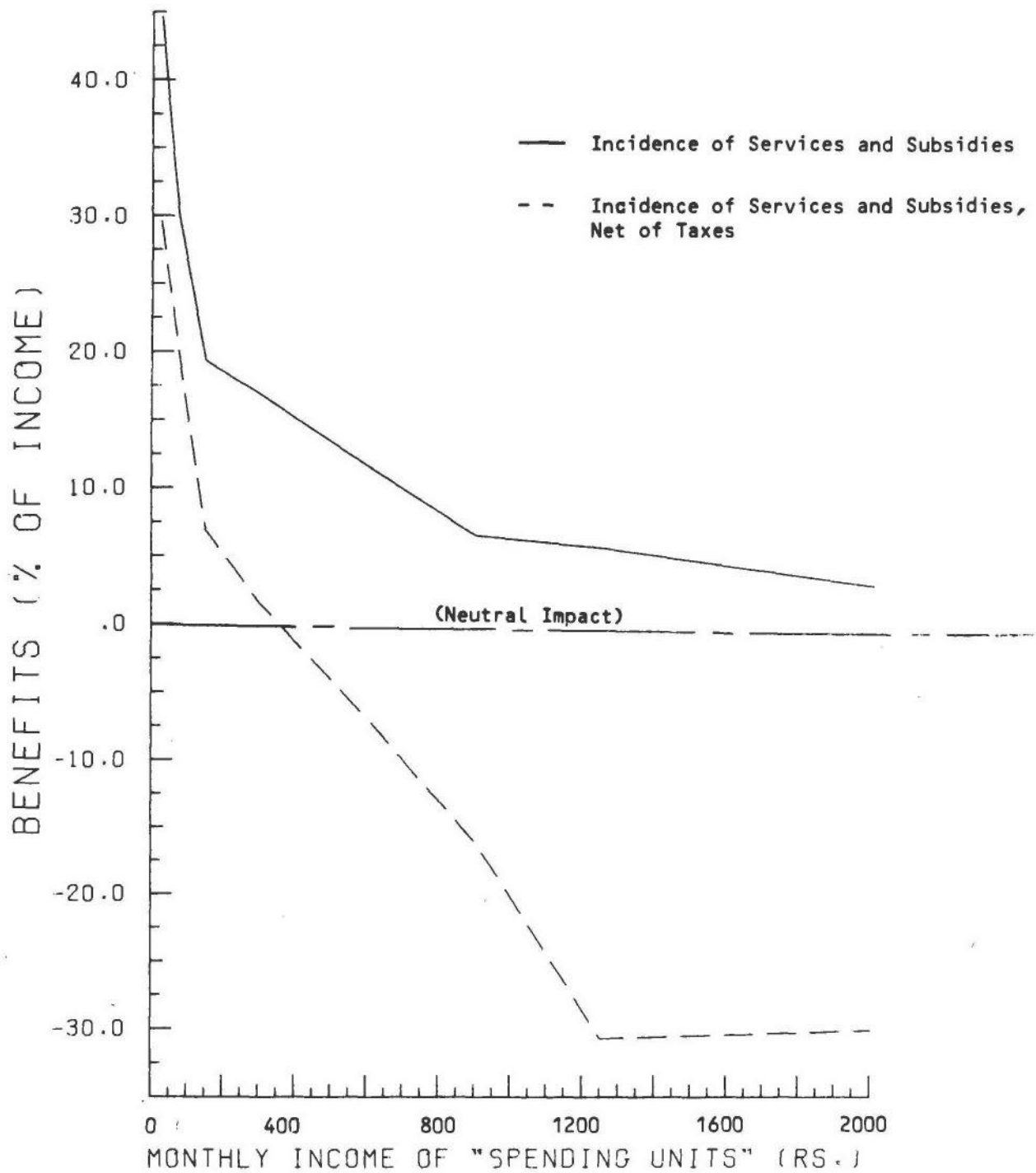
\* "Participatory Development and Dependence", Marga Institute, 1977.

\*\* P.J. Alailima, Fiscal Incidence in Sri Lanka, (ILO, forthcoming).

\*\*\* However, as might be expected, the distribution of subsidies and services in total, excluding social service charity programs, was still somewhat unequal; some items, such as higher education or the transport subsidy, were distributed highly unequally.

\*\*\*\* The GINI coefficient in the Alailima study is being revised to take account of technical difficulties in transforming "spending unit" incomes to per capita incomes when the data have been aggregated into income groups. Nevertheless, a change in the level of the GINI coefficient from that in the draft version of the Alailima study should have little impact on the ratio of the GINI coefficients before and after taking account of fiscal incidence.

**Figure B: INCIDENCE OF SERVICES AND SUBSIDIES AS A PERCENTAGE OF INCOME, 1973**



Source: P. J. Alailima, Fiscal Incidence in Sri Lanka, I.L.O., Forthcoming.

There is no sample survey data available for the distribution of incomes since 1973. The increase in the death rate in 1974 and 1975 indicates, to say the least, that the poor did not fare well, particularly on the estates. However, in response to the inflation-induced deterioration in the living standards of the poor and resultant political and union pressures (including international attention to the plight of the tea workers), there were general increases in wages in 1974 and 1975. The decline in the relative price of foodgrains since 1975, combined with the increased demand for labor on the tea estates, and the (very expensive and overly broad) subsidy on wheat flour, have improved the position of the poor. At the same time, the combination of slow growth and nationalization probably worsened the relative position of the rich, including particularly earnings from dividends and rents.\* The net effect on income distribution was probably a worsening from 1973-75 and then an improvement.

In sum, the distribution of income and consumption appears to have improved during the fairly rapid growth period of the 1960's, even before taking account of the incidence of taxes, subsidies and services, or more importantly, of the real improvements in the distribution of welfare indicated by the data on social indicators. The improvement (or at worst stability) in income distribution during this period is important, since it is often thought that Sri Lanka achieved its improvement in income distribution by sacrificing growth for equity. Rather, the period of the severest redistribution measures, the first half of the 1970's, seems to have been one of a decline in real incomes of the poor, and of deterioration in 'basic needs' programs. Thus, although there have been tradeoffs between social programs and growth, there have also been complementarities of growth in output with the absolute, and to some extent relative, incomes of the poor and with the distribution of welfare. This occurred, though, not because growth always has this effect, but because of the structure of growth in Sri Lanka, which involved extensive social programs and substantial increases in the incomes of small farmers.

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\* However, some individuals were able to make substantial amounts from windfall gains resulting from government controls and allocations or from production of consumer products under complete protection from foreign competition. Other became wealthy from the boom in gem exports.

#### IV. Basic Needs and Unemployment

Unemployment is a very serious problem in Sri Lanka. Sample surveys have shown a growth in the unemployment rate for at least fifteen years, reaching about 20% of the labor force, or about one million people in 1977.\* The unemployed represent not just under-utilized resources, but a threat to Sri Lanka's political stability. They do not, however, represent a basic needs problem, *per se*. They are mostly young (90% under 30 in 1975),\*\*generally (75%) with at least some post-primary education. 85% are supported by their parents and three-fourths are looking for their first jobs.\*\*\*In contrast, the problem of poverty is severest among those who are employed but have low incomes. They tend to be landless laborers, marginal farmers, estate labor, or unskilled workers in the informal sector. Their households have a higher than average proportion of dependents, few assets, and less than average access to education or even the rice ration (because they cannot afford to buy their full entitlement).\*\*\*\*They need not more jobs, but more productive, better paid, jobs. Thus, the Sri Lanka situation indicates the danger of the recently popular approach to development of treating "employment" - usually with primary focus on minimizing unemployment - as the central development objective which unifies both growth and equity objectives.

Although unemployment in Sri Lanka is primarily not a basic needs problem, there are some connections between the factors that led to the meeting of basic needs and the factors that have led to high unemployment,\*\*\*\*\* which may have implications for other countries. While the drive for education leads to a series of development benefits (discussed previously) it also

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\* Extrapolated from the Land and Labor Utilization Survey, 1975.

\*\* 83% under 34 in 1971. The 1971 data are in general more reliable. Either estimate indicates a high concentration of unemployment among the young.

\*\*\* Labour Force Participation Survey, 1973.

\*\*\*\* P.J. Alailima, "A Profile of Poverty in Sri Lanka" (unpublished), 1976. This study was based on data from several surveys.

\*\*\*\*\* Among the reasons advanced for high open unemployment in Sri Lanka are slow growth, rapid growth in the labor force due to a demographic bulge, and subsidies to capital. All three are valid contributors to unemployment, but the situation in India appears to have been as bad or worse on all three, while open unemployment remained insignificant. And since Sri Lanka's per capita growth rate has been above average for countries below \$200 per capita, slow growth cannot explain the unusually high unemployment rate.



tends to lead to a mismatch between the aspirations of new entrants to the labor force and the requirement of the labor market for people to fill relatively unskilled, low-productivity jobs.\* Hence the well-chosen title of the innovative and comprehensive 1971 ILO Employment Report on Ceylon - "Matching Employment Opportunities and Expectations". It is easy to blame this mismatch on "inappropriate" curricula and teaching methods, and they have undoubtedly contributed to the problem. But, Sri Lanka's curricula and teaching methods have been no more "inappropriate" than those of many other countries with much lower unemployment. More important than curricula, though, in Sri Lanka is that a \$160 per capita economy simply does not require 75% of new entrants to the labor force to have more than a basic primary education.

The mismatch need not automatically lead to unusually high open unemployment. Rather, one might think that, over time, the excess supply of relatively educated people looking for white collar or skilled jobs in government and in the formal private sector would drive down the wage differential attributable to education, and drive up the minimum education standards for any given job; after a while unsuccessful job-seekers would give up and take whatever jobs were available. Such adjustment mechanisms have operated to some extent in Sri Lanka.\*\* Nevertheless, for a variety of economic and non-economic reasons, the wage differential in Sri Lanka, as

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\* There are generally unskilled jobs available in Sri Lanka, particularly during peak agricultural periods, in the less populous "dry zone", and, recently, on the estates.

\*\* The income differential in Sri Lanka between those with "0" level qualifications and those with only primary education has declined from 3:1 to 2:1 between the Surveys of Consumer Finances of 1953 and 1973. This effect of the increased supply of educated people on the wage rate indicates in part that the "market" is working. In part it also reflects the shift in the terms of trade in favor of agriculture, since many farmers have primary educations but few have reached the "0" level.

Also, an increasing number of relatively educated young people in Sri Lanka are apparently willing to accept relatively low status jobs, in which secondary (or in some cases primary) education does not add significantly to productivity. There are also many who are not willing to do so. See "Pattern of Job Expectations and Unemployment Among Rural Youth", Marga Institute, 1977.

On the "screening process" by which employers use academic qualifications not directly relevant to the job vacancies to choose among applicants, see C.V.P. Deraniyagala, R.P. Dore, A.W. Little, "Certification and Employment in Sri Lanka", Institute of Development Studies, Sussex, 1977.

in many other countries, has not been driven down to "market clearing" rates.\* In addition, public or formal private sector jobs tend to be more secure and to offer much better career prospects; such jobs are worth waiting for. In other words, relatively educated young people in Sri Lanka have a high "reservation wage". They tend to choose to remain ("voluntarily") unemployed in large part because from their point of view, it is financially profitable in the long run to do so; unfortunately, from the point of view of the society at large the high unemployment that results is the country's major economic and political problem. At any given time it may (rightly) appear rational to an individual to wait, even if the chances of getting a good job are low and the waiting time is long (3 years or more for half of those unemployed in Sri Lanka in 1973). If, for example, a government white collar job offers lifetime income, security, status, and career prospects worth together five times those in the agriculture or informal sector, then it may be considered worthwhile to wait for that job even if one's chances are only one in three or four.\*\* In such, rather typical, circumstances for a developing country, it is likely that the greater the mismatch between job opportunities and the qualifications and expectations of new entrants to the labor force, the higher will be the open unemployment.\*\*\*

In addition, for any given mismatch, the lower the costs of waiting and the higher the benefits from waiting, the higher the unemployment. In Sri Lanka, the welfare programs, such as the food ration or free health care reduce the costs of waiting and, thus, increase the time that parents or other relatives are willing to support a job-seeker. Also, the spread of welfare programs into rural areas makes it more attractive, depending on the nature of the job search process, for the unemployed to live in rural areas. If this is feasible (and 70% of the unemployed in Sri Lanka live in

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\* Economic reasons would include a premium for discipline, reliability and lower turnover; non-economic reasons would include the political power of public sector and other educated workers.

\*\* Another way of putting this argument is that the Sri Lanka case can be explained by a so-called "segmentation" model of the labor market, of which the Harris-Todaro model of unemployment in East Africa is the best known example. See A. Berry and R. Sabot, "Labor Market Performance in Developing Countries - A Survey", World Development, forthcoming, for a broad review of relevant issues.

\*\*\* See M. Blaug, Education and the Employment Problem in Developing Countries, ILO, Geneva, 1973.

rural areas), then the costs of waiting are reduced further, since those waiting can now live with their families and take advantage of lower rural food prices. The ability to live in a rural area while remaining unemployed may thus cause an increase in unemployment.\*

Furthermore, the spread of female education is likely to mean that women will make up an increasing proportion of the unemployed, partly because there may be more social or other restrictions on jobs open to them and partly because the opportunity cost of waiting is often lower than for men. This would be particularly the case for women whose parents could not otherwise force them to work, or would set limits as to what kinds of jobs, geographic areas, or residential arrangements were acceptable. For someone who has the option of withdrawing from the labor force entirely, the costs of remaining unemployed while waiting for a good job are obviously reduced. In 1975 the unemployment rate for women was 38% while for men it was 15%.

In addition, the Sri Lankan political situation increases the returns to waiting for a good job. The insurrection of 1971 and the fact that the 20% of the labor force who are unemployed are relations of a very large percentage of the total population indicate that the unemployed and their families can put considerable pressure on the government to "solve" the unemployment problem by creating permanent jobs for the unemployed. Successive governments have tried to do so. Since such programs tend to be restricted to those who are "unemployed", rather than those who are over-educated for their current jobs, there is a substantial incentive to remain unemployed, rather than to accept an inferior job while looking for a better one. There are also other reasons to remain unemployed: more time to look for a job; loss of self-esteem from accepting a low status job; and an alleged preference of employers for those who are unemployed over those who have accepted a low status job.

In spite of the economic rationality of waiting for several years for a good job, it would be wrong to imply that all voluntary employment among educated youth is "rational", or that caste and class behavior norms do not also play a part. While those from families with higher socio-economic status undoubtedly are over-represented at the university and "A" levels, Sri Lankan

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\* This would be quite different from, but not inconsistent with the spirit of the Harris-Todaro model, which related the modern/traditional wage differential to rural-urban migration on grounds that the job search required living in the town. More work needs to be done on the nature of the job search. For what kind of jobs do applicants have to queue up almost daily? What kind of jobs tend to be filled by formal applications or by recommendations from current employees, so that prospective candidates could remain in the rural areas and make occasional trips into the city? Sri Lanka's relatively small size and its good and highly subsidized transport system may make it unusually easy for those seeking modern sector employment to do so while living in a rural area.

parents, like those elsewhere, have seen education as the key to social and economic mobility. Parents work hard and forego labor inputs from their children so that the children can have access to the better life-chances that education provides; many might well be willing to go on supporting an educated unemployed child long after it becomes apparent that the child will eventually have to settle for whatever low status, low pay, work is available. It would also be wrong to imply that the unemployed do no productive work at all (although this remains an area where insufficient empirical evidence is available). Unemployed youth being supported by their parents do contribute to their families' livelihoods, and often, particularly in peak agricultural seasons, will do work for others. The number of hours spent with no economically productive output would depend, among other things, on the parents' tolerance and their feelings about the social status they hope that their child's education will bring.

Finally, it would be wrong to imply that anything that governments do to reduce the unemployment problem will only increase the incentive to remain unemployed and, thus, make things worse. There are constructive steps that can be taken, in Sri Lanka as elsewhere, that have fewer "side effects" than the steps discussed above. These would include, for example, elimination of pricing distortions that subsidize capital in relation to labor; changes in curricula and counseling aimed at reducing student and parental expectations; fixed term employment on productive public sector projects, but with an explicit condition that no permanent government employment will follow; and continuing reductions in the overall income and security advantage of a white collar public sector job.

In sum, while the elimination of unemployment is primarily not a problem of basic needs, some basic needs programs - food subsidies or the spread of social programs to rural areas - have the inadvertent effect of lowering the cost of remaining unemployed while searching for a good job. Other programs not directly a part of a basic needs approach but derived from common political and economic sources - rapid extension of post-primary education for both boys and girls, or well-intended government steps to ease the plight of the unemployed - lower costs of waiting further and increase expectations of benefits. The greater affordability of unemployment in countries where basic needs have been largely met means that its level is likely to remain higher than in countries where this is not the case.\* One would hardly wish to argue that this is not a price worth paying - that, in effect, the risk of death from diseases related to malnutrition or health practices should be higher so the cost of remaining unemployed will also be higher. On the other hand, governments should take steps in both employment and basic needs policies to minimize the extent to which welfare programs subsidize or otherwise encourage unemployment.

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\* In other words, the basic needs and related programs, as well as government help to the unemployed, contribute to a divergence between private and social costs of unemployment that in turn contributes to an undesirably high unemployment rate.

### V. Concluding Note

Sri Lanka has had serious development problems, including high unemployment, preemption of a high percentage of the budget and of imports for social expenditures, and an extremely adverse turn in external terms of trade. These problems were exacerbated by some policy weaknesses in the 1960s and more widespread policy weaknesses in the 1970s. But the evidence suggests that, contrary to what is commonly assumed, it was not excessive expenditure on social programs that caused growth to decline in the first half of the 1970s, but the poor growth policies and terms of trade. Sri Lanka's good record on growth and social programs in the 1960s (and the apparent deterioration in the distribution of real consumption and in social programs in the early 1970s) confirms the importance of complementarities as well as tradeoffs between growth and basic needs. Its record on social indicators suggests that expenditure over a number of years at a high percentage of the total government budget can lead to striking progress in the underlying social objectives of the economic development process. Even the highly controversial food ration and subsidy program seems to have had nutrition, mortality and income distribution benefits. The widely accepted view that the social benefits were greatly outweighed by the economic costs appears dubious. However, even with Sri Lanka's good data base, and the wide range of relevant studies available, there are too many economic and political variables and too many questions of values and judgment for this issue to be resolved conclusively one way or the other. (It would obviously be even more difficult to judge such questions ex ante in other countries, most of which have much weaker data bases.)

To put the costs of Sri Lanka's social expenditures in perspective, in the first half of the 1970s they were about \$15 per capita per year, split roughly equally between the food subsidy and social services. By the standards of domestic poverty programs in aid-donor countries, or even by the standards of donor-funded development projects in poor countries, \$15 per capita hardly sounds high in relation to Sri Lanka's social accomplishments. Even that \$15 overstates costs of direct basic needs programs, since it includes both benefits to those whose basic needs have already been substantially met and social programs with objectives other than basic needs (e.g. higher education).

For the future, acceleration of growth seems much more feasible than in most other slow-growing countries. Sri Lanka's potential for per capita income growth has been enhanced by its relatively higher developed human resources, its low rate of population growth, and its comparatively low wage rates. The new government has already taken some useful steps to accelerate growth, particularly floating the rupee and beginning to reduce subsidies to middle and upper income groups. Whether it will achieve accelerated and sustained growth depends heavily on the quality and stability of growth policies and, in industry, on labor discipline.\* Both

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\* If its growth is fairly rapid, the Sri Lankan experience would support the argument made in favor of an initial heavy investment in human capital as an important (but neither necessary nor sufficient) cause of long-run rapid growth. It would help to generalize this argument beyond the East Asian and European countries (e.g. Japan, Korea and Israel) from which it derives.

are primarily political, rather than economic, questions.

Like most other countries, Sri Lanka is in many ways a special case in large part dependent on its own historical circumstances. Because of this, and because of the serious deficiencies in its past growth efforts, and its essentially untargeted social programs, Sri Lanka cannot be held out as a basic needs "model" for others. Yet, it is one of the very few non-Socialist countries to have been embarked for many years on a basic needs approach. Its experience appears to shed light on a number of issues and hypotheses relevant to basic needs, including: tradeoffs and complementarities between basic needs and growth; the tension between the lower economic costs of targeted programs and the greater political feasibility of less-targeted programs; relative priorities among basic needs programs; and the complex relationship of basic needs to income distribution and unemployment. Overall, since Sri Lanka has accomplished more in meeting basic needs than most countries with three or four times its per capita income and appears to have average or better growth prospects, its development experience can no longer be written off as a failure.

Appendix Table 1: Regression Equations \*

A. Equations Used in Figure A:

1.	LIT ("t" values)	=	43.93 (9.67)	+	0.0304 Y (5.35)	-	(3.664x10) <sup>-6</sup> Y <sup>2</sup> (-3.87)	R <sup>2</sup> = 0.50 s.e. = 18.48
2.	Ln (LIFEX)	=	3.263 (39.47)	+	0.123 Ln (Y) (10.19)			R <sup>2</sup> = 0.65 s.e. = 0.10
3.	Ln (INFMOR)	=	7.896 (21.79)	-	0.590 Ln (Y) (-11.14)			R <sup>2</sup> = .68 s.e. = 0.46
4.	Ln (FERT)	=	7.190 (28.41)	-	0.371 Ln (Y) (-10.02)			R <sup>2</sup> = .63 s.e. = 0.32

B. Equations Used in Section IE

5.	Ln (FERT)	=	7.495 (30.94)	-	0.188 Ln (Y) (-3.18)	-	0.025 (LIFEX) (- 3.76)	R <sup>2</sup> = 0.70 s.e. = 0.29
6.	Ln (LIFEX)	=	2.83 (45.30)	+	.065 Ln (Y) (7.27)	+	0.199 Ln (LIT) (10.69)	R <sup>2</sup> = 0.88 s.e. = 0.06
7.	Ln (INFMOR)	=	8.900 (20.70)	-	0.454 Ln (Y) (-7.41)	-	0.464 Ln (LIT) (-3.63)	R <sup>2</sup> = 0.74 s.e. = 0.41

Where,

- LIT = Adult Literacy
- LIFEX = Life Expectancy
- INFMOR = Infant Mortality
- FERT = Fertility Index = (Number of Births/1/2 of Population  
Ages 15-64)
- Y = Per Capita Income
- Number of Observations = 59 countries

Source of data, World Tables, World Bank, 1977. Data are for 1975 or the closest available year.

\* The specifications used were those that gave the best fits in the range of the sample values, rather than, for example, specifications which provided asymptotes (e.g. 100% literacy but weaker fits. There is likely to be more simultaneous equations bias in Equations 1, 4 and 5, since literacy and fertility affect per capita income, but the conclusions drawn from these equations are not sensitive to small changes in the coefficients.

Appendix Table 2: Sri Lanka Death Rates

1. Significance of the Increase in the Death Rate in 1974

$$\begin{array}{lcl} \text{Ln (Death Rate)} & = & 2.143 - .012 t \\ \text{("t" values)} & & (106.57) \quad (-3.39) \end{array} \qquad \begin{array}{l} \bar{R}^2 = .51 \\ \text{s.e.} = .04 \end{array}$$

Where t = Time, from 1963 to 1973, with 1963 as 0. The coefficient of .012 indicates the death rate was declining (with statistically significant consistency) at a rate of 1.2% per year from 1963 to 1973. The projected value for 1974 would have been 7.5, while the actual value was 8.9. The difference (residual) is significant at .01 (based on a "t" value of 4.8).

2. Cause of the Increase in the Death Rate in 1974

The following equation shows that the open market price of paddy was, along with the time trend, a significant determinant of the death rate.

$$\begin{array}{lcl} \text{Ln (Death Rate)}_T & = & 1.754 - .011T + .159 \text{Ln (PP)} \\ & & (16.47) \quad (-3.09) \quad (3.43) \end{array} \qquad \begin{array}{l} \bar{R}^2 = .45 \\ \text{s.e.} = .04 \end{array}$$

Where T = Time, from 1963 - 1976, with 1963 as 0.

PP = Open market paddy price, deflated by the Central Bank wage rate index for government employees.





75065



GENEVA.

4/7

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*of the*

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*56 rue de Moillebeau*

*Petit Saconnex*

*1211 Geneva 19*

*Jeffrey White*

A.G.D. WHITE

*as directed.*

*Appreciates a very*

*rapid day!*

*Notes of comments made by Prof Galtung, directly after his discussion, Geneva, 17 April 1978*

2. Professor Galtung made a number of points which might be useful to those who consider these issues in Canberra. He outlined the criticisms which have been made of the NIEO and the Basic Needs Approaches, foreshadowed the intensification by 1980 of an increasingly sterile debate around these two alternatives, and offered some comments for future consideration. Professor Galtung said that the NIEO was seen as a response by the First World to the demands for changes put forward by the Third World over the past two decades. He then spoke of two forms of economic surplus. First there were surpluses generated at the bottom or grass-roots level which could trickle up. Second there were surpluses which either generated by trade or by very wealthy sectors at the top and which could trickle down. In most Third World countries the surplus at the bottom trickled up but the surplus from the top did not trickle down. In other words, only the elite gained from the surpluses and the great mass of the people stayed where they were. The NIEO placed a premium on foreign trade which tended to be organized so that local producers in the rural sector would produce increasingly for export markets rather than local markets. The NIEO in short was a substitute for the military power that had been unavailable since the end of colonialism to enable the elite to control the masses. Capital intensive methods implicit in the NIEO would not help the rural masses.

3. Turning to the Basic Needs Approach (BNA) Professor Galtung outlined six basic criticisms that had been made of the concept :

(a) It was not an honest approach but a side-track used by the West, which had failed to demonstrate the moral superiority needed to justify the dictation of basic needs. Indeed the West's colonial policies of the past demonstrated exactly the lack of the necessary moral qualities and stature.

(b) The BNA was a pretence for intervention, offering the opportunity to reach way down into the internal structure of other states.

(c) The BNA was a way of getting more people into the market. With more than 17 million people unemployed the West is faced with too much supply and production relative to demand and required more consumers. He predicted that nothing would come out of the Brandt Commission unless it promised more employment in the FRG.

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(d) The BNA approach would ultimately make the Third World less economically competitive internationally.

(e) According to the "McNamara argument", meeting basic needs would assist the fight against communism; which was at its most powerful when people were poorest. This argument was demonstrably not true, he claimed.

(f) The BNA approach implied less technical assistance and could be the means by which the West would get out of meeting its one percent of GNP aid commitment.

4. Professor Galtung then outlined two alternative possible outcomes of the debate between the NIEO and BNA. On the one hand the debate could continue to be polarised leading to a deadlock based on entrenched positions. On the other hand, one could be more optimistic and envisage that the surpluses generated at the top did trickle down without Western control or direction, which was, of course, politically and morally intolerable. The BNA could not be used as a stick to force developing countries to adopt particular policies. The contradiction could be resolved if self reliance developed and the people at the lower levels were trusted. He thought that the two contesting concepts were viable in countries like Cuba, but not in countries like Venezuela where capital intensive activities worked to alienate the lower levels of society - disenfranchised by them.

5. He said that the NIEO would come and had to come as it was an "historical wave." In response to a question, he said that the Communist countries of Eastern Europe were seriously concerned about the implications of the NIEO debate in the context of what it implied in terms of internal structure in societies. Their concept had always been that revolution should be followed by restructuring and not vice versa. The NIEO debate excluded them in a disadvantageous way from a most important discussion.

6. He thought that there would be stepped up efforts to set up a Third World secretariat and said that present Third World fora were inadequate. But when euphoria for the NIEO peters out and misgivings on the part of the developing countries set in there would be greater divisions within the 77. He urged that we do not fall into the trap of either being for or against the NIEO and BNA but rather set out to promote discussion and clarification of the issues involved.

7. In a situation such as the present where there was more supply than demand one could either expand markets (the NIEO would set a brake on this), adopt a policy of planned obsolescence or have a war. Alternatively, to get supply down, one needed to increase unemployment, including dismissal of capitalists, bureaucrats and researchers as well as workers, diminish working hours and cut down productivity. The classic Western approach was a combination of war and unemployment. In the context of protectionism he said that the GATT had served the West since World War 2 but perhaps we were now entering a period when the West would start creating trade barriers on the basis that if they could not have the Third World markets any more then at least they should have the First.

8. In response to a suggestion from a Third World representative that promotion of discussion about NIEO and BNA was a new, more sophisticated attempt by the First World to influence and interfere with Third World attitudes and thereby gain political dominance, Professor Galtung showed little annoyance but conceded that the process could either be seen as a tool for oppression or as a help for developing countries. He stressed also that an important basic need was the need for autonomy. He concluded with the counter suggestion that the Third World should respond to First World comment on Third World problems with more Third World comment on First World problems taking a lead from the interesting and useful Soviet response at Belgrade to United States criticism on Human Rights problems.

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INTERNATIONAL DEVELOPMENT ASSOCIATION

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## POLICY REVIEW COMMITTEE

PRC/s/M/78-1a

June 16, 1978

THE RELATIONSHIP OF BASIC NEEDS TO GROWTH, INCOME DISTRIBUTION  
AND EMPLOYMENT: THE CASE OF SRI LANKA

STAFF REVIEW - MINUTES

Attendance: Messrs. Chenery (Chairman), Bharier, Churchill, Chernick, Davies, D., Dubey, Gulhati, Hicks, Isenman, Karaosmanoglu, Kisa, Merriam, Noor, Pfeffermann, Pyatt, Ray, Streeten, Turnham, Waide, Wright, Burki (Secretary)

1. The staff level meeting of the Policy Review Committee on the paper on Basic Needs in Sri Lanka was held on June 1, 1978 and was Chaired by Mr. Chenery. Mr. Burki indicated that since this was the first of the several country Basic Needs papers to be prepared, it was useful to consider implications for other country papers as well as what kind of distribution should be given to this and the subsequent papers. Mr. Isenman's introductory remarks emphasized how looking at a specific country situation helps to shed light on some of the more controversial issues regarding basic needs, such as whether there are trade-offs between basic needs and growth or among basic needs.

2. The general response to the paper was quite positive. A number of questions and suggestions for improvement of the paper were discussed. Several speakers put emphasis on the importance of Sri Lanka's favorable 'initial conditions' and on the lack of replicability of these initial conditions in other countries. It was pointed out, though, that much of what we see as initial conditions are in fact a reflection of a long term political commitment to what are now called "basic needs."

The Sri Lankan experience is interesting not because it can be transplanted to other countries, but because it casts light on a number of issues and hypotheses relevant to basic needs.

3. Several speakers also noted that the costs of the expensive social programs go beyond their direct financial costs and involve distortions in pricing and other policies. However, it was also noted that many countries which did not have high expenditures on social programs have had worse pricing policies and that it was unclear that cutting back on social expenditures would have eliminated these distortions or made Sri Lanka's growth comparable to that of, say, Singapore.

4. On the applicability of the paper on Sri Lanka to other country studies, it was agreed that each paper needed to be oriented to the specific situation to be studied - e.g., to the country's problems and data availability and to specific sectoral or other objectives. At the same time, the paper served to point out some approaches to analysis and issues relevant to other country papers. At the conclusion of the meeting, it was decided that after some revisions, the paper would be issued in the Bank Working Paper series and that future basic needs papers would also be considered for this series.

Shahid Javed Burki  
Secretary  
Policy Review Committee

cc: Those Attending



## OFFICE MEMORANDUM

TO: Distribution Below

DATE: April 17, 1978

FROM: Mahbub ul Haq, Director, PPR

SUBJECT: Seminar on Basic Needs versus Distributional Weights

1. This is to alert you in advance of the announcement in Weekly Notes that on Friday, April 28 at 10:00 a.m., in Room E-1244, Professor Arnold Harberger of the University of Chicago will give a seminar on "Basic Needs versus Distributional Weights in Social Cost-Benefit Analysis." This will be the third in our series of seminars on basic needs.
2. Professor Harberger had hoped to have a paper ready in advance of the seminar, but has now promised to send some "notes" for reproduction a few days in advance of the seminar. His talk will take off from ideas discussed in the concluding section of his paper entitled "On the Use of Distributional Weights in Social Cost-Benefit Analysis," presented at a Conference on Research in Taxation, sponsored by the National Science Foundation and the National Bureau of Economic Research, Stanford, California, January 1976. If you would like a copy of this 1976 paper, please call ext. 73538.

cc: Messrs. Chenery  
Karaosmanoglu  
Little  
DPS Department Directors

Mrs. Boskey, Director, IRD ✓

Messrs. van der Tak  
Ray  
Donaldson  
Squire  
CPS Department Directors  
Regional Project Directors  
Regional Program Directors  
Regional Chief Economists

Mr. Robert S. McNamara

March 31, 1978

D.R. Clarke, through William Clark, VPE

Ambassador Mills' Speech to the International Development Conference

William Clark has asked me to pass on to you a copy of Ambassador Mills' undelivered speech (Mahbub ul Haq substituted for him) which was to have been made to the International Development Conference in Washington in February, in which he repeats general criticism of the existing economic order and against a too simplistic approach to basic human needs strategy (see sections marked).

Attachment

BASIC POLICY ISSUES FROM THE PERSPECTIVE  
OF THE THIRD WORLD

By Don Mills, Ambassador of Jamaica to  
the United Nations: Conference on "Meeting  
Basic Human Needs: "The U.S. Stake in a New  
Development Strategy"- The International  
Development Conference - Washington D.C.,  
February 1978

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The International Development Conference has created an opportunity by way of this meeting, of examining a set of issues which are of the greatest importance to the world. As I understand it, over the next two days there will be a series of discussions centering around the problems of development in the Third World and providing, hopefully, some insights into the ways that the United States might contribute to, and benefit from the process.

In the light of the critical stage which has now been reached in negotiations between developed and developing countries on their future economic relations, it is fitting that this organisation, with its history of 25 years of active involvement in such matters, should organise such a meeting as this. I hope that the discussions will be frank and free and will involve the re-examination of ideas and notions concerning the issue of international development and the relationships between the developing and the industrialised countries.

Much has happened in this area over the past 25 years. The early 1950's saw the beginnings of a real concern about the

poverty . . .

poverty and lack of development in the Third World. At that time very few developing countries were independent as they were still a part of some colonial holdings of one or other of the North Atlantic countries.

The efforts and ideas which emerged immediately after World War II centred around the need to prevent another outbreak of war, and the need to rebuild the countries of Europe which had been the subject of so much destruction. Thus the International Bank for Reconstruction & Development, the International Monetary Fund, and some other institutions were geared to this task.

It was later that the focus shifted to the Third World. And the interests involved saw aid as the means of alleviating the conditions of poverty in those countries. Those in industrial countries who became involved in these efforts inevitably followed their own notions concerning developing countries as the latter had no means of speaking for themselves in those times.

A number of things have happened over the years since that time. First, the movement toward the sweeping away of the system of colonialism which had kept so many countries in subjugation for so long, reached the point where through the Declaration adopted unanimously by the U.N. in 1960, the entire global community accepted the commitment to facilitate the process of decolonization. With the freeing of the territories concerned, the membership of the U.N. grew from a mere 51 in 1945 to the present figure of 149.

As . . .

As developing countries joined the U.N. system, they succeeded in gradually shifting the attention of the international community to the questions of underdevelopment and international economic relations.

It became more and more apparent that aid, while being of value, was incapable of making the sort of impact on the situation in developing countries which had been anticipated. And the will to contribute weakened in some countries, with the flow of resources to developing countries lagging behind the agreed targets. In addition, the gap in income between rich and poor countries continued to widen.

As developing countries became more aware and more perceptive, and as they built their own groups and associations - such as the Non-Aligned Movement and the Group of 77 - they came to the realization that they were caught in a trap, created in large part out of historical circumstances, and relating to the manner in which the colonial relationships had expressed itself in economic terms. They realized in short, that they were operating, in such matters as trade investment and other activities, within an international economic system which was created for and geared to the interests of one category of countries, and that the structure and manner of operation of that system would have to be changed in order to accommodate the interests of all countries.

THE OLD ORDER

The proposals relating to the establishment of the New International Economic Order emerged from this new perception, and for almost 4 years these have been the subject of discussions and negotiations inside and outside of the U.N. system.

Developing countries are deeply disappointed at the lack of progress so far achieved in this matter. They have continued to negotiate and to maintain their unity. And they are heartened by the fact that a number of industrialised countries continue to maintain positions of support in regard to the movement toward restructuring of the international economic system.

At the last United Nations General Assembly a decision was taken to create a new forum to monitor agreements and facilitate negotiations related to the NIEO. This Committee is due to begin work next week, and it is our hope that it will provide a basis for a real advance in the process of implementation of the NIEO.

I have given this outline in order to reinforce a particular point which I believe should be made at the beginning of such a conference as this. At first, the notion put forward by developing countries relating to the restructuring of the international economic system were not taken seriously by some. We could hardly have expected immediate and universal endorsement of such far-reaching proposals. But it was a great mistake to believe that we were not serious in our intentions. I hope that no one believes today that we are not serious.

It is I think, of the greatest importance that you who will take part in the discussions at this conference, and those who are involved at the governmental level in dealing with the issue, understand what we are saying, and why. You may disagree with . . .

with us. You may oppose us. But please do not fail to understand us. I hope that we have passed the era of the dialogue of the deaf.

So as you discuss such questions as the problem of meeting basic human needs, I hope you will not lose sight of the broad and vital issue of international economic relationships and the movement by developing countries to bring about significant changes in this area.

In the discussions on these issues over the past 3 or 4 years there has emerged a strong interest on the part of some persons and some governments in conditions inside developing countries. Some have argued that global restructuring without internal restructuring in the interest of the disprivileged and the poor, would greatly limit the value of the exercise. This of course is correct. And developing countries must face squarely the task of finding approaches to development which bring real benefits to those of their populations who are in greatest need. This is not at all easy. Also the realization that most of the resources and the effort which must go into the development process must continue to be provided by developing countries themselves has grown. Those governments in developing countries which fail to or refuse to realise these facts will find themselves under mounting pressure from their citizens.

But . . .

But some of the ideas and proposals which have emerged in developed countries out of this concern about conditions in developing countries have given rise to serious misgivings.

We have seen some of these ideas coming from countries which are squarely opposed to the notion of restructuring of the international economic system. We cannot accept any substitute for global restructuring. For even if with the help of the rich countries we could raise our levels of living to a significant degree - we in the Third World would remain the Third World - always in a subsidiary position, in which we could not participate fully in international economic activity and benefit on an equitable basis. And the gap between rich and poor countries would continue to widen.

It must be said however that some of the ideas and proposals concerning internal conditions in developing countries come from those in industrialised countries who agree fully with us on the need for global restructuring and join us in the move to achieve this.

What we consider unacceptable is the idea that movement toward global restructuring might be conditional on our taking certain action within our countries - conditional on our good behaviour so to speak. We hold that the case for restructuring rests on the inequity of the international economic system, the fact that it gives great advantage to some while depriving others.



I think it is true to say that over the past decade we have all come to realise how limited is our understanding of the development process. Most of the cherished formulae which have been applied in developing countries - and applied in some cases with great energy - have failed to solve the basic problem of development. Rapid economic growth and diversification of the economies have been achieved in some instances - but often without solving the problem of providing a meaningful place for masses of the populations. My own country has been one example of this. We are now making efforts to correct this.

The approach to development has changed over the years with the emphasis shifting, from the search for growth per se, the trickle - down process, to rural development, to the direct attack on poverty, and to now basic needs. But as always there has remained the serious danger of oversimplification of the problems and issues. Development is a complex process, involving cultural and social, as well as political factors. Today we realise the need for rethinking our ideas and theories.

The process of restructuring of the economic and social sectors of the U.N. has now begun. One of the purposes of that exercise is to make the U.N. a centre of discussion and exploration of ideas and concepts, so that it can provide effective guidance in matters of global and national development. This is a time when many industrialised countries are facing the fact that the

economic . . .

economic system which has served them so well, and particularly over the past 30 years, is suffering from a serious illness and not merely a temporary indisposition. They are searching for means of returning to the days of continued significant economic growth without the attendant evils such as inflation. It is noteworthy that some persons in those countries see a partnership with developing countries as the only hope for ensuring their own continued prosperity.

It is at such a time that ideas and proposals related to basic human needs are being advanced.

Let me say right away that the eradication of poverty, suffering and ignorance should be the primary aim of any society, rich or poor. This must involve a conscious process, geared to ensuring that all members of a community can have access to amenities, services and resources which are needed to provide them with a tolerable life. The term basic human needs can be applied in this setting.

But it is one thing to accept this, and quite another to manipulate and advance the whole development process. For development involves the generating or acquisition of financial and intellectual and other resources, and the allocation of these in a manner which helps to create for a community a complex and satisfactory set of conditions, activities and institutions, including those related to contacts with other nations. Development

takes . . .

takes place against the background of existing interests, values, notions, skills and expectations. In this setting the introduction of new and far-reaching approaches and the drastic reallocation of resources, present serious operational, political, social and economic problems.

If this were not so there would, I hope, be no poverty and deprivation in rich countries, no pockets of frustration and bitterness growing from it. There would be no need to be frightened in those countries, at the prospect of serious illness because of the high costs of medical care, or to be worried about the education of one's children - again because of the cost.

If the meeting of basic needs was a simple matter it would not have been seen as necessary for the countries which are now rich to wait until they had accumulated some wealth before turning their attention to the relief of the vast amount of suffering and deprivation which accompanied the accumulation of that wealth. The provision of national welfare schemes presumably to meet basic needs, came late in these countries - and certainly not when they might, in today's parlance, have been categorised as developing countries.

The process of development in today's circumstances is basically a political one. It calls for comprehension, will, and the organisation of people and communities at the local, regional and national level. It calls for management in places where the

market . . .

market system once reigned supreme. It requires that the public interest be put above commercial interest. It calls for the accumulation of capital. It must result in the generating of the revenues necessary, in particular, for maintaining the provision of those basic services such as health and educational facilities which we all now agree must be the foundations and not the reward of development.

When we hear the call for a direct attack on poverty, or for a programme for meeting basic human needs, we do not often find along with it a real appreciation of the radical nature of such a purpose. Unless the idea of basic human needs is being advanced merely as a glorified and updated welfare scheme, it must involve fundamental changes in the social and economic and also political structures of the country's concerned. For it would then require a redistribution of income, wealth and opportunity. And such changes meet with strong resistance from within a country, and are sometimes attended by varying expressions of concern from outside.

The meeting of basic human needs should then be seen as an important part of a very complex and much wider process of development and social and economic change, designed to remove the the indignities of poverty and lack of opportunity, and to build a viable community which more and more satisfies the wide range of requirements of its members.

But . . .

But there are other difficulties that confront us when we approach the development process in this way. The problem now facing many of the rich countries have made us realise that one does not escape from serious concerns in the field of development by merely passing a certain point in the per capita income scale. What are the basic needs of the people of the U.S.A., or the Federal Republic of Germany, or Japan, to name a few? Is there an abstract standard applicable to all people - except for such requirements as relate to differences in climate? For some communities, a social security system is indeed a basic need. And it is interesting to note that, according to a recent report, in most European countries social benefits - including vacations and private and government pensions - account for 25 to 45 percent of total labour costs.

Is social security seen as a basic human need in the case of a country like Jamaica, or Tanzania? And if not why not? Is security from military attack a primary and basic need in some countries?

One danger we face here, is that of projecting the value systems which we all harbour within us, and which involve feelings about people of different countries, cultures and races, into our preceptions of what might be legitimate aspirations or the basic needs of different people.

As I have suggested, the administering of any system related to the attack on poverty is not a simple matter. A few days ago - on February 3 in fact, there was a report in the New York Times under the headline "Poverty Programme in Turmoil".

As I understand it this programme was a part of President Lyndon Johnson's concept of the "Great Society". The new Mayor of New York and his aides are reported to see the problems of the programme as stemming from waste, feuding among the recipient groups, political empire building, patronage abuse and corruption.

The newspaper article quotes city and Federal officials as saying that hundreds of millions of dollars in anti-poverty funds have been spent in New York City in recent years with almost no control over whether the money was properly used or accounted for. It states: "Indeed, it is generally believed that the money probably is not even going into the right neighbourhood because the city's poor have increased and shifted since the programme was set up".

I cite this merely to show that the approach to the elimination of the harsher manifestations of poverty is a complex matter fraught with all sorts of problems. The existence and persistence of poverty, whether in rich or poor countries, is the result of complex factors, and the eradication of poverty calls for a re-examination of the social, economic and political system and the values in a community. We all have a great deal to learn in this respect and the greatest danger is the risk of oversimplification in concept and in approach.

Finally, I hope that your discussions at this Conference will be truly rewarding, and that they will take full account of the interests of different countries in different stages of

development, or for that matter underdevelopment, but most particularly of the people in all countries rich and poor, whose present condition and prospects for a satisfying life concern us all.

Permanent Mission of Jamaica  
to the United Nations  
New York  
February 6, 1978

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# OFFICE MEMORANDUM

TO: Distribution Below

DATE: March 20, 1978

FROM: Mahbub ul Haq, Director, PPR *ju*

SUBJECT: Basic Needs Papers

1. We have received numerous requests for information on papers already prepared within the Bank on basic needs. Attached is a list for ready reference. These papers represent staff views and are available only for circulation within the Bank. Any requests for these papers should be directed to Mr. Shahid Javed Burki, Chief, Policy Planning Division (Room D-444, ext. 75284).

2. In addition, there are five sector papers, seven country studies and several other papers under preparation. The status of these papers is reported regularly in the monthly Inventory of Papers with Significant Policy Relevance.

Distribution:

President's Council  
Department Directors - IBRD and IFC  
Regional Chief Economists  
Regional Program Coordinators

Attachment

LIST OF BASIC NEEDS PAPERS

BASIC NEEDS: An Issues Paper

Policy Planning and Program Review Department  
March 21, 1977

BASIC NEEDS: A PROGRESS REPORT

Mahbub ul Haq, Policy Planning and Program Review Department  
August 10, 1977

GLOBAL ESTIMATES FOR MEETING BASIC NEEDS: BACKGROUND PAPER

(Basic Needs Paper No. 1)  
Shahid Javed Burki, Joris J.C. Voorhoeve  
with Robin Layton, Catherine Fort  
Policy Planning and Program Review Department  
August 10, 1977

THE DISTINCTIVE FEATURES OF A BASIC NEEDS APPROACH TO DEVELOPMENT

(Basic Needs Paper No. 2)  
Paul Streeten, Policy Planning and Program Review Department  
August 10, 1977

INTERNATIONAL IMPLICATIONS FOR DONOR COUNTRIES AND AGENCIES

OF MEETING BASIC HUMAN NEEDS (Basic Needs Paper No. 3)  
Paul Streeten, Mahbub ul Haq, Policy Planning and Program Review Department  
Development Policy Staff  
November 15, 1977

PAKISTAN: OPERATIONAL IMPLICATIONS OF ADOPTING BASIC NEEDS TARGETS

(Basic Needs Paper No. 4)  
Shahid Javed Burki, Norman Hicks, Mahbub ul Haq  
Policy Planning and Program Review Department, Development Policy Staff  
December 2, 1977

A NOTE ON MEETING BASIC NEEDS: TURKEY

(Basic Needs Paper No. 5)  
Attila Karaosmanoglu, Mete Durdag  
November 17, 1977

PARTICIPATORY PLANNING AND ADMINISTRATION: THE PLANNING AID KIT  
AND OTHER TECHNIQUES (Basic Needs Paper No. 6)

January 1978

SECTOR POLICIES AND LINKAGES IN MEETING BASIC NEEDS

(Basic Needs Paper No. 7)  
Gilbert T. Brown, Shahid Javed Burki  
Policy Planning and Program Review Department, Development Policy Staff  
February 9, 1978

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# International Bank for Reconstruction and Development

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FROM: The Deputy Secretary

January 23, 1978

## POVERTY INCOME LEVELS

Attached for information is a note entitled "Country-Specific Poverty Income Levels: Methodology and Uses of Bank Estimates" which has been prepared in the Agriculture and Rural Development Department in response to a request made at the meeting of the Executive Directors held on December 22, 1977.

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Country-Specific Poverty Income Levels:  
Methodology and Uses of Bank Estimates

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1. This note has been prepared in response to a request at the meeting of the Board of Executive Directors on December 22, 1977, for information about the procedures used by the staff to estimate poverty levels in member countries.
2. Current analysis and estimation of poverty stem from work initiated during the preparation of the paper entitled "Rural Development and Bank Policies: A Progress Report", which was discussed and approved by the Board in December 1974 and subsequently published as the Rural Development Policy Paper. In that paper the following was said on the measurement of rural poverty (p. 3, para 1.10):

"... There is no uniquely correct way of measuring the extent of poverty or of rural poverty. In President McNamara's Nairobi Speech, emphasis was given to programs for increasing the productivity of 'that approximately 40 percent of the population of our developing member countries who have neither been able to contribute significantly to national economic growth, nor to share equitably in economic progress.' Our illustrative calculations build from this baseline, taking into account absolute poverty - defined by income levels below which minimum adequate standards of nutrition, shelter and personal amenities cannot be maintained, and relative poverty - reflecting extreme differences in levels of living between the top and bottom strata of a developing society. The latter often afflicts countries higher on the income scale to a greater extent than it does the poorer countries."

3. Following the broad guidelines indicated above, a series of country-specific estimates have been prepared by the country program economists, utilizing the results of national studies where these have been undertaken. These estimates now cover more than 70 countries. For "absolute poverty" the procedures involve the following main steps:

- a. identifying the components of a food "basket" (or baskets) representative of that consumed by low income groups;
- b. estimating the quantities of that food basket necessary to provide the minimum calories and protein necessary for nutritional needs;
- c. costing that minimum food basket; and
- d. adding an estimate for the monetary equivalent of non-nutritional essential needs (clothing, shelter, energy, etc.).

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(c) together with (d) thus constitute a cost of expenditure level necessary to maintain a minimum standard of living, i.e., a poverty threshold; those groups of the population whose sustainable expenditures (equivalent to net income) fall below this threshold constitute the absolute poverty group or target group.

4. The deficiency of data in most member countries, together with a degree of imprecision inherent in the concept of absolute poverty, imply that such estimates must necessarily be considered only very approximate in most cases. For example, the basket of food commodities to be taken as representative of consumption patterns may vary from one part of a country to another, reflecting different dietary patterns and habits; differences in levels of expenditure, both within and between countries, affect the variety and composition of diet that can be afforded; calorie requirements vary significantly according to the activity pattern of work and scientific estimates of requirements are still judgemental within a 10% to 15% margin; finally, prices of commodities vary significantly through space (urban/rural/farmgate/market) and time (seasonal scarcities) and are often not reported in sufficient detail to enable a full calculation of appropriate averages.

5. Conditions in some member countries are such that the absolute poverty threshold, thus measured, embraces a majority of the population; in other cases - particularly at the upper end of the middle income countries - absolute poverty afflicts only a small fraction. In such cases, to give focus and emphasis towards poverty in the orientation of Bank lending, a second criterion, one of relative poverty, has been utilized to identify groups most in need. Relative poverty as defined for this purpose includes households whose income is equivalent to one third or less of the average household income of the country as a whole. Relative poverty tends to include more people than absolute poverty for most countries in the EMENA and LAC regions, while absolute poverty dominates in African and South Asian countries. Methodologically simpler to estimate than absolute poverty, the estimates of relative poverty are nevertheless only as good as the estimates of the national income accounting data from which they are derived. The latter are still very deficient in many cases.

6. Thus far, the major use of these somewhat crude estimates is as an aid in monitoring the orientation of Bank lending towards low income beneficiaries, in particular, through rural and urban development projects. Thus, for each project where estimates are feasible, an assessment is made of the pre-project range of incomes among targeted or presumptive beneficiaries. Thereafter an attempt is made to estimate the number of beneficiaries in the target group and the expected impact of the project on these beneficiaries. In the context of projects located in rural areas, a project for which the majority of benefits is expected to accrue to the poverty group on the basis of these calculations is classified as a rural development project. The poverty line for this purpose uses the absolute or relative poverty criterion, whichever is more comprehensive in the country concerned. Using this approach some 129 projects or 59%

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of all agricultural projects were classified as rural development projects over the period FY75-77. In total, some 65% of the beneficiaries of these projects cluster around and below the poverty line established for the respective countries. The total beneficiaries for these three years were estimated at about 10 million rural families or close to 60 million individuals. Similar criteria are followed in monitoring the urban poverty program.

7. Estimation of poverty thresholds, including improvement in estimation techniques and updating to reflect changes, is now established as an integral part of country economic work. As the present crude estimates become further refined a number of other potential uses for such data may be taken up involving for example, cross country comparisons of populations in poverty and analysis of trends. However, for the purposes described in this note, crude estimates are sufficient and in this context there is probably little to be gained from their further refinement.

8. For illustrative purposes, recent estimates of the per capita poverty threshold for some countries in Asia - all converted from a national currency base to US dollars using official exchange rates - are as follows: Bangladesh US\$90, Burma US\$40, India US\$65, Indonesia US\$95, Pakistan US\$83, Philippines US\$155, Sri Lanka US\$76 and Thailand US\$93. These estimates refer to rural areas; estimates taking into account the generally higher living costs in major urban centers are prepared separately.

Agriculture and Rural Development Department  
January 19, 1978

January 10, 1978

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*File*

*19/01*

Mr. Jean P. Carriere  
Director  
European Office  
World Bank  
66 Avenue d'Iena  
75116 Paris, France

Dear Jean:

I resume my letters about William's Monday afternoon meetings, after the holiday interruption.

William said the P.C. of January 9 had dealt with two items of business. One was travel about which there is little to say because no decision was made. The regional VPs are rather anxious to see that changes in the policy are flexible enough to cater for the particular difficulties of travel in some Third World areas, especially for Bank staff who move around frequently. Bernard Chadenet and his people will be working on amendments to the present policy, in the light of the comments made in the P.C.

The second subject discussed was Basic Needs, on the basis of the two new drafts from PPR (No. 3 on International Implications for donors of meeting BNs; No. 4 on Pakistan, Operational Implications of Adopting BN targets).

William Clark, in the P.C., had spoken on BN more on the question of presentation than on the substance. He said that if the Bank was going to specialize in a BN approach, it would be perceived as peddling a U.S. or a DAC plan which disregarded the industrialization, modernization and infrastructure requirements of the middle income LDCs whereas those requirements were considered, generally, as the essential targets of Bank lending. He made two suggestions. First, that BN should never be put forward as a Strategy but only as a useful tactical instrument with which to sharpen the Bank's attack on absolute poverty. The latter objective was first set forth by Mr. McNamara back in 1972 and the Bank's policy concerning the abolition of absolute poverty was clear, known and accepted. It had a time horizon. Second, William thought it important to underline that the IBRD arm of the Bank would continue to support the middle income countries' industrialization and modernization policies. Only if these considerations were clearly kept in view, would the BN approach be readily accepted by the Bank's membership.

Mr. McNamara felt that it would be absurd to believe that the Bank could turn its back on everything outside the strict BN approach. This approach might, over time, take up 75% or 80% of IDA activities. But the whole capital increase exercise was directed at allowing IBRD to do more with middle income countries who, we would hope, would also consider helping to meet the BN of their own poorest.

January 10, 1978

Shahid Husain and Moeen Qureshi agreed that what was required was a shift in emphasis rather than a complete change in World Bank policy. Economic appraisals should deal with questions relating to how far BNs are met and all projects should be designed so that benefits could flow downwards. On the other hand, development might stop if all projects were entirely BN projects. And, in any event, the World Bank could not impose a given type of development system on its members. What it must do is to offer alternatives.

It was said, in the P.C., that the Bank's stance in certain countries such as Pakistan would change quite a lot with a BN approach. Ul Haq had been to Pakistan and successfully advised on a policy change towards making the poor more productive. In Brazil, the Bank's own attitude might be somewhat different and its advice might be, for instance, that one third of its lending could be used in the North East or on slum improvement work.

The decision in the P.C. was to review country programs to determine the extent to which they helped meet basic needs or how far they needed to be changed to meet basic needs more quickly. This will not result in great changes in country programs but rather the basis on which country programs are justified will shift somewhat.

The discussion in William's meeting proceeded on the subject of BN and I noted the following.

On additionality, ul Haq had proposed that ODA be increased annually by \$2 billion, 70% to go to the poorest instead of the present 45% ratio.

BN was a useful tactic because it brought into focus what needed to be done, in practice, to attack poverty. BN is an instrument with which to combat absolute poverty and it must be shown to fit into the Bank's own policy on the poverty front.

On the other hand, the question was asked: why does the Bank need a new slogan? Was it not a fact that the U.S. saw BN as an aid policy which might justify a diminution of aid flows? Because of that attitude in the U.S. and perhaps beyond, it was important for the Bank, if it was going to plunge into BN more heavily, to present its position and its intentions very clearly to its membership, Otherwise, misunderstandings with the Third World were bound to arise.

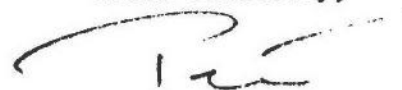
William Clark, concluding, indicated that BN was to be regarded as a short-cut in the attack on poverty. It was not a way of short-changing the developing world.

\* \* \* \* \*

I assume, Jean, that you receive the drafts on BN produced in PPR. I sent copies of some to Koelle to pass on to a professor in Holland, with ul Haq's approval. If you want to see BN papers 3 and 4, do say.

*Am. Kies*

Yours sincerely,



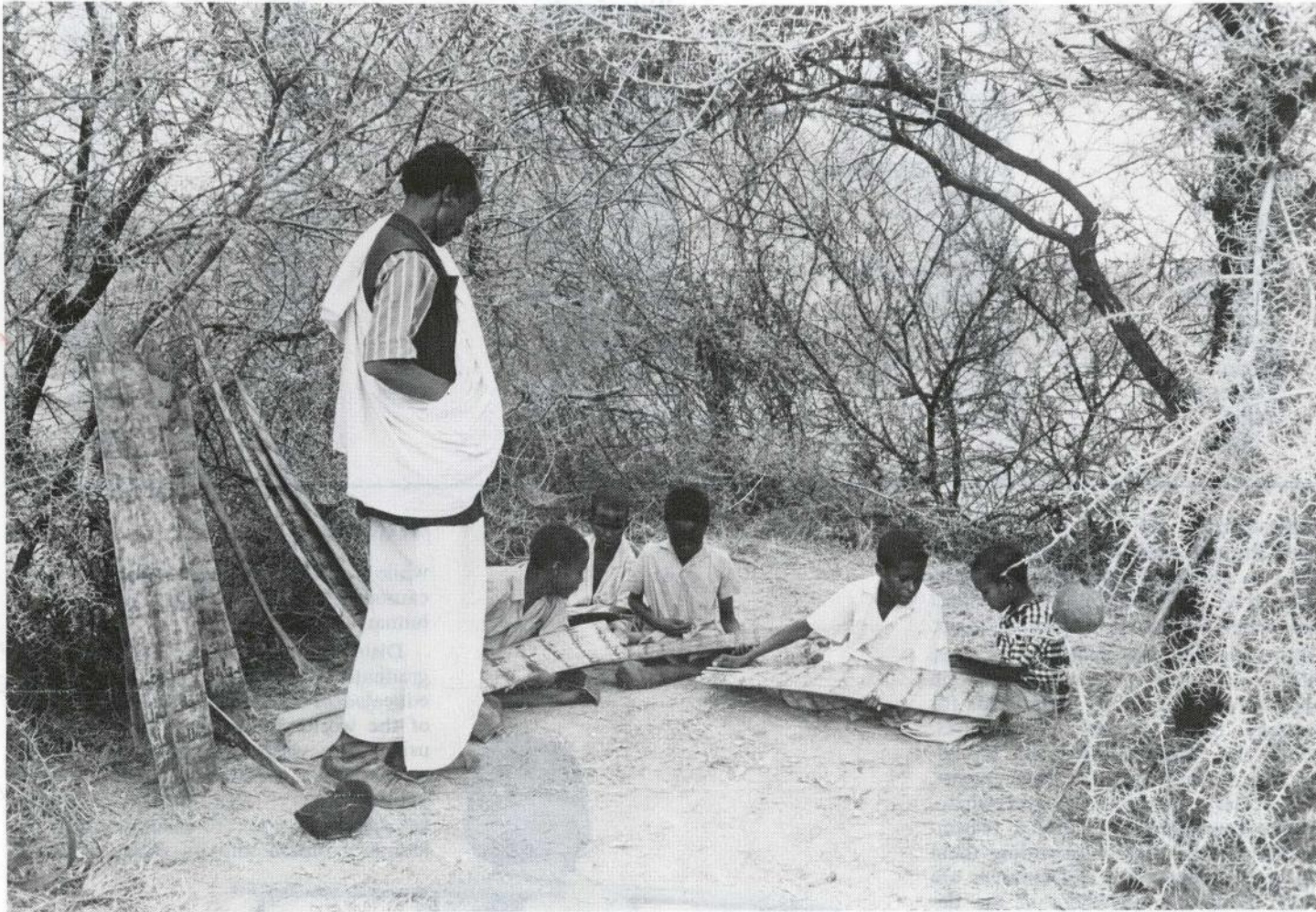
L. Peter Chatenay



# Report

News of the World Bank

November-December 1977



Classes in Somalia, in a grove of thorn trees. It is estimated that some 1,100 million people are today deprived of basic

education. Of that total, some 300 million are children.

UNICEF photo by Matheson

## Meeting basic needs held not beyond reach

*Quietly at first, but with growing momentum, the concept of "basic needs" has been gaining attention in the literature of, and debate over, development policy. In the accompanying article, Mahbub ul Haq, director of the World Bank's Policy Planning and Program Review Department, reviews the status of the ongoing debate on the subject.*

Alleviation of poverty is not a recent concern. What is recent is the concern that successive responses to the problem have not had a sufficient impact on world poverty. Despite a fairly impressive aggregate growth rate in the income of the developing countries over the last 25 years, over one-half of their present population still cannot meet its minimum basic needs.

The question has, therefore, arisen whether by focusing directly on the objective of basic needs itself, rather than on the means of overall growth, it is possible to advance the time period for meeting the basic needs of the vast majority of their populations.

Some of the initial controversies around the concept of basic needs have proved, on calmer examination, to be

based either on misunderstandings or on the exaggerated claims of the proponents and the exaggerated fears of the opponents of the concept.

For instance, it was soon realized that: —Economic growth is absolutely necessary to achieve basic needs, especially in the poorest countries. The main issue is what type of growth can enable a society to satisfy the basic human needs of its whole population considerably sooner than they would be under a less discriminating strategy of all-round income growth.

—The concept is a relative, not an absolute, one; no one seriously suggests that nothing else should be produced except basic needs or that everyone getting more than his basic needs should be completely neglected. Moreover, in many societies, the only practical option may be partial progress on selected fronts rather than comprehensive advance on all fronts.

—While the basic needs objective is valid for all developing countries, it is more urgently relevant for the poorest nations than the middle-income countries. The poorest nations, even if they manage to double their present per capita income growth rates, can hope to attain

a level of less than \$400 by the year 2000. Thus, they must find some shortcuts to restructure their production and consumption patterns in such a way as to meet the basic needs of their population sooner, at a relatively low per capita income.

—Political decisions are critical, whether the development strategies are labelled "basic needs" or anything else. The chief proponents of basic needs sometimes tend to understate the institutional reforms and political restructuring necessary to pursue the objective successfully, just as its chief opponents often conveniently forget that tough political decisions are not only peculiar to a basic needs approach but to any approach that aims at improving the welfare of the poorest sections of society.

It has proved difficult to define and measure basic needs with a degree of analytical or operational rigor which would be generally acceptable. Part of the difficulty is inherent in the concept itself, since human needs are relative to each society, and not absolute. They change with environment, climate, level of development, cultural diversity, and

(Cont'd on Page 4, Col. 1)

## Safe water: on tap by 1990?

By Julian Bharier

*"Mother, may I have a drink?"  
"Yes, my darling daughter;  
Scotch or gin or wine or beer,  
But don't go near the water."  
—Traditional*

Although there is enough water on this planet to meet every conceivable need for drinking, cooking, washing, and other uses, including commercial and industrial, its distribution and quality is very uneven. From the beginning of time, therefore, people built homes along the banks of rivers, by springs, lakes, or oases, where there were nearby water holes or where rainwater could easily be collected. If the water source dried up, they moved—witness the deserted towns, villages, and farmhouses in arid lands, which were previously able to support life.

As time passed, as old-established communities grew, as villages became towns, then cities, and as new communities mushroomed, water resources became overexploited and polluted by the very people who depended on them, while new sources of supply became less easy to locate.

This is not a recent problem. Over two thousand years ago, Romans drew their water from the Tiber, or from wells or springs. Yet the city grew so rapidly that these sources soon proved inadequate. Aqueducts had to be built to bring water from outside the seven hills, and sewers were built to dispose of the wastewater.

As far back as the first century A.D., Frontinus, the Water Commissioner of Rome, realized that even this supply was becoming insufficient, and he began to ration water among users by various metering devices. Moreover, the Romans were neither the first nor the last to be concerned with municipal water supply and sewage disposal practices for the same reasons that we are today, namely, to protect human health and provide a safe environment for living.

Nor is disinfection of polluted water a latter-day activity. It has been practiced for many centuries; in particular, the boiling of water to remove impurities had been recommended at least as early as 500 B.C. From the middle of the nineteenth century, when sanitary conditions in England became intolerable because of the concentration of people in urban areas in the wake of the industrial revolution, efforts to purify water by consumers intensified. The correlation between increased purification of water and a decline in the incidence of water-borne diseases did not pass unnoticed. Epoch-making discoveries in bacteriology from about 1880 on showed that cholera and typhoid, as well as many other serious diseases, could be water-carried.

(Cont'd on Page 2, Col. 4)

## Conservation comes to Damascus

Two millenia ago, Damascus was an old city. Cities settled before it have disappeared. Others, settled long after, have also vanished. Damascus could become a city—and has remained one for so long—because of the presence, some 15 kilometers away, of a source of clean, mountain-fresh, and seemingly inexhaustible supply of water. Without the Fiegh spring, as it is known, there would have been no Damascus.

The Fiegh spring, which bubbles to the surface at the foot of a range of limestone mountains, supplied Damascus in Roman times. Remains of a Roman aqueduct, which brought the water from the mountain to the town, are still visible.

The Fiegh spring, in the year 1977, is still the single source of water for Damascus, population 1,200,000 and growing by about 5 percent yearly. Now, there's not enough water—at least in the dry season—to go around. The Syrian Government, with the help of the World Bank and the Arab Fund for Economic and Social Development, is carrying out improvement works on the spring in order to postpone further the date when another source of water will have to be tapped.

The plan is simple enough. During the spring, much of the water from the spring runs off into the Barada River, which flows unprotected downstream through Damascus. Throughout the year another part of spring water, however, flows through a gravel bed under the river, and then seeps into the river. The Barada is not a good aqueduct. When the snows melt in the spring, the river floods, and the water supply of Damascus, as a result, spreads out into the desert as floodwater.

### Costs Are High

Under the project, which will be completed in 1980, a wall of cement grout will be built through the aquifer, thus preventing the subsurface water from flowing into the river. Pumps will be erected at the spring site, and the water will be lifted into a tunnel which will carry its precious supply to Damascus's principal storage reservoirs. In addition, it is estimated that in the aquifer, lie billions of cubic meters of water never before touched. The pumping station at Fiegh will extract water from this reserve during periods of drought and low rainfall.

Under normal circumstances, such a project would not be excessively costly. But construction costs in Syria, experiencing a very vigorous development, are particularly high, and the price of improving the Fiegh spring and construction of a larger tunnel to carry the waters to the city will come close to \$137 million.

The ultimate beneficiary of the World Bank funds (some \$35 million) is the *Etablissement Public des Eaux de Fiegh* (EPEF). It is the EPEF which must pay back the principal, plus interest (8.5 percent). By 1985, the EPEF is also going to have to begin to make further investments in order to develop new sources to supply the growing needs of Damascus. All this is going to cost money—a lot of it.

The problem is that current EPEF revenues just cover current operating expenses—and nothing more. Recent investigations have shown that almost half the water meters in Damascus were either inoperative or were under-registering the amount of water Damascenes were using.

Country	Location	Type of Project	Total Project Cost	Bank Loan or IDA Credit
<b>1976</b>				
Kenya	Mombasa-costal	Water supply	75.0	35.0
Mexico	Medium cities	Water, sewerage	100.0	40.0
Malaysia	Kuala Lumpur	Sewerage	60.5	21.5
Syria	Damascus	Water supply	139.9	35.0
Yugoslavia	Morava	Water supply	51.4	20.0
Yugoslavia	Sarajevo	Water, sewerage	95.7	45.0
Panama	Panama City	Water, sewerage	17.9	12.0
India	Uttar Pradesh	Water, sewerage	75.0	40.0
Pakistan	Lahore	Water, sewerage	46.3	26.6
Zaire	Zaire	Water supply	70.4	21.5
<b>Total</b>			<b>732.1</b>	<b>296.6</b>
<b>1977</b>				
Brazil	Minas Gerais II	Water, sewerage	134.0	40.0
Bahamas	New Providence	Water, sewerage	36.4	10.0
Bolivia	Bolivia	Water supply	15.0	11.5
Greece	Volos and Salonica	Sewerage	113.0	36.0
Tanzania	Morogoro	Water supply	20.7	15.0
Egypt	Alexandria	Water, sewerage	121.7	56.0
Malawi	Blantyre	Water supply	15.5	7.0
Philippines	Provincial cities	Water supply	44.6	23.0
Sri Lanka	Colombo	Water, sewerage	42.5	9.2
Tunisia	Tunisia IV	Water supply	103.0	21.0
Syria	Aleppo	Water supply	117.0	50.0
Oman	Oman	Water supply	2.5	1.5
Yemen A.R.	Sana'a	Water, sewerage	45.7	10.0
Nepal	Nepal II	Water, sewerage	11.8	8.0
<b>Total</b>			<b>823.4</b>	<b>298.2</b>

(Three-quarters of the population is served through individual water connections.) A crash program has now been instituted to enable the EPEF to collect those water fees in an efficient manner.

But even with full collection of fees, EPEF could scarcely generate enough money to enable it to set aside funds for necessary future capital expenditures. Though the Syrian Government has always helped finance project requirements, it is necessary, as in the case everywhere, that the consumers also bear a reasonable part of the cost of providing them with water. Water rates in Damascus are among the lowest anywhere in the developing world. Water in neighboring Jordan, for instance, is four-and-a-half times more expensive than in Damascus. It's eight times more expensive in the port city of Hodeida in the Yemen Arab Republic.

It has, therefore, been concluded that the city's present water rates, which have not been increased since 1945, will have to be readjusted upwards. Not for all, however. About 500 liters of water a day is thought to be sufficient to meet a family's normal cooking and sanitary needs. Thus, the proposed increase in water tariffs would not affect those who use the daily minimum. From 500 liters to 1,000 liters a day, a second, higher tariff will be installed; for over 1,000 liters a day, a third, even higher, rate will prevail.

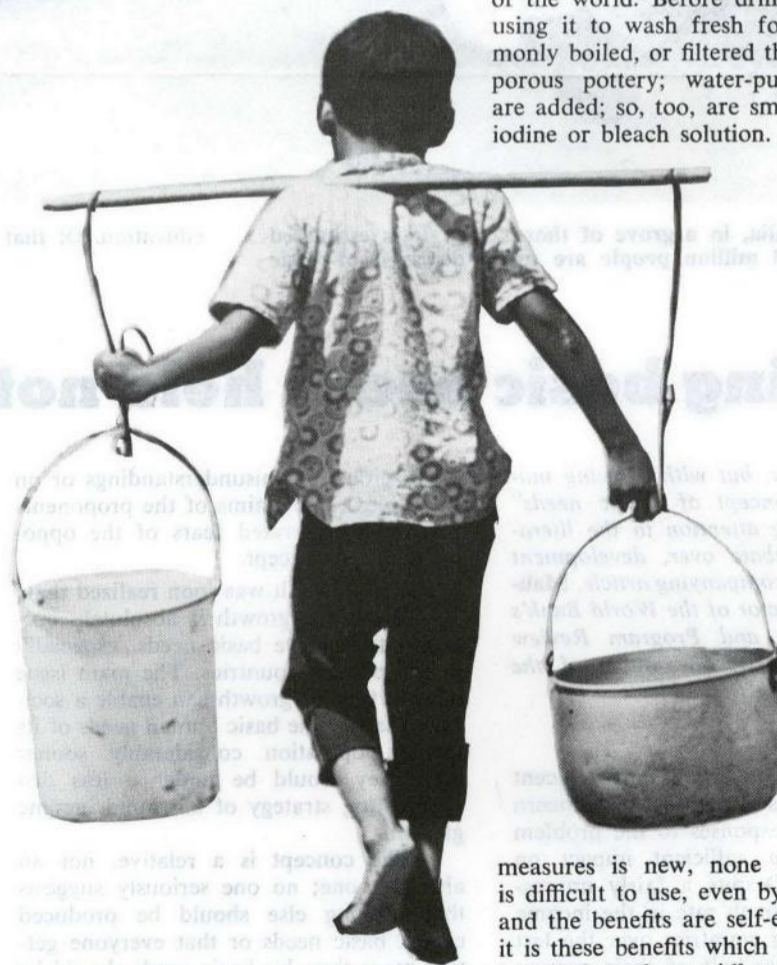
Those of limited income, therefore, will not be adversely affected by the new tariff structure. Those who can afford to pay more, and who consume larger quantities, will have to bear a higher cost of water. In the long run (and the short run, too) the whole city will benefit. Broken meters and subsidized water rates encourage profligate use of water. It is, however, in everyone's interest to conserve the treasure from Fiegh spring.

Profligate use of a free, inexhaustible supply of water helped make Damascus what it was more than 2,000 years ago. Conservation and fair pricing of water in the future, however, could help the Damascus oasis continue to thrive as the proud capital of a justly ambitious country, as it has been for more than two millennia.

### Water... Cont'd.

while many intestinal diseases were caused by drinking water polluted by human waste.

Disinfection of water by users has gradually become commonplace among educated or informed people in all parts of the world. Before drinking water, or using it to wash fresh food, it is commonly boiled, or filtered through sand or porous pottery; water-purifying tablets are added; so, too, are small amounts of iodine or bleach solution. None of these



measures is new, none is costly, none is difficult to use, even by the untrained, and the benefits are self-evident. Indeed, it is these benefits which have led to the installation of a rapidly growing number of central treatment facilities in cities and towns throughout the world.

People have also found that purification or disinfection is not even necessary if they are more careful in their selection of water sources and if measures are taken to prevent those sources from becoming polluted. Wells and surface sources of water can be constructed so that polluted surface water does not

## Letters

To The Editor:

My attention was caught by an article in **Report**, "Dairy Cooperatives Spurring Widespread Changes in India," May-June 1977, pp. 1-3, highlighting an unusually effective and innovative rural development scheme. I have visited this program and agree it deserves close examination, publicity, and replication. I find it troublesome, however, that women are mentioned only peripherally and appear in none of the photographs. Readers of **Report** should know that women do, and have always done, the bulk of the work required in raising, feeding, and milking livestock in Anand and in much of India.

The article states that women's status and roles are being "elevated" by this project. Maybe yes, maybe no. Without doubt, the increased incomes have benefited families and, one assumes, the women in them. But, it is a safe guess that the women's daily work burden of feeding, milking, etc., has increased as milk has become a thriving business; this increase may not represent "elevation" in their status, especially given the following facts. During visits to Anand, I have been told men are the majority of cooperative shareholders and control the cooperative societies. Project staff (at the

village milk collection points and at the center) are men. No one seems to know whether or not the women still receive and control the income from their milking. Traditionally, that income was always theirs, but now? Thus, this project, undeniably beneficial for farm families, may not, on balance, have done much for women's economic status and independence, and may even have undermined them.

All this is not to say the project is bad. Quite the contrary. It is one of the few such endeavors that is economically viable and replicable on a wide basis. Deliberate efforts could, however, be made in replicating the approach to include women fully, not just as workers e.g., by adding women to the extension staff who recruit cooperative members).

Adrienne Germain

*The writer is a program officer with the Ford Foundation in New York City.*

Editor's note: We regret that women were mentioned only "peripherally" in the article. The article was based almost exclusively on interviews with villagers. The women encountered were, unfortunately as it may be, more than a little hesitant about being interviewed. The absence of photos we are happy to hereby rectify.



## Water ... Cont'd.

drain into them; latrine pits can be located away from wells; and animals can be watered in separate places. Similarly, storage, transport, and drinking vessels can be kept clean.

To the initiated, all these methods to prevent water contamination are obvious. There are few countries in the world where people could not adopt and afford techniques for avoiding or reducing pollution of water sources, or could not improve the quality of drinking water—if they have the incentive to do so and if they are informed about the health benefits involved. Moreover, these health measures do not become any less important when some central authority provides "safe" water for a community. There is no point in having clean water coming out of taps in a house if it is drunk from dirty vessels, or if (as happens in many cases) people use it for every purpose but drinking because of the "bad" taste of the disinfectant used.

If it were just a matter of ensuring that the first two to five liters of water available to, and used by, everyone in the world for drinking and food preparation were safe, a major component of such a program would be an educational one, that of convincing users of the benefits of "safe" water.

But people need from 20 to 30 liters of water each day for personal hygiene or for washing clothes. Typically, people carry about this much water from standpipes and thus, the main problem is one of access (although it is generally accepted that this water must be safe as drinking water since, because germs are invisible, people cannot distinguish between different qualities of water). Improved access to 20 to 30 liters of water a day for each person would reduce the time and energy expended in obtaining it and hence increase the productive potential of the drawers of water, most of whom are women. Such quantities are usually not difficult to dispose of once used and, as a result, it is usually unnecessary to develop costly wastewater disposal systems—at least at first.

It is when per capita use increases to a minimum of from 50 liters to 100 liters a day, as it does when people have piped "patio" or house connections, that it

often becomes essential to invest in sewage facilities (if health benefits are to be maintained) and to establish a system of rationing (to reduce waste). In addition, at this level of use, it becomes crucial that the technical efficiency of the water supply system be maintained. A drop in pressure, an intermittent supply, or leakages or mistakes in the purification process can lead to the rapid spread of disease across an entire community. Tremendous efforts are therefore required to train and keep qualified management and technical personnel.

### Distinct Advantages

Many developing countries realize that there are distinct advantages in the construction and operation throughout every urban community of a water supply system along the lines of those now found in the towns and cities of the advanced countries. Such a system incorporates a centrally controlled and purified source of water, wide-ranging transmission lines, and metered, multiple-tap connections in every house or apartment. With proper management, there can be large social and economic benefits in such a system; for this reason, they continue to be strongly supported by the Bank. They are convenient for the consumer, they reduce the user's costs of storage and purification, and, through their universality of use, they can limit the possibilities of infection. Meters can be used to levy tariffs, to produce a financially viable public undertaking, to discourage waste, to assist investment decisions by setting price equal to long-run marginal cost, and to help in a general movement to redistribute income.

But public standpipes have their drawbacks. Standpipes are subject to vandalism, and vandalism can bring about wastage. Health hazards can result if adequate drainage is not provided around them. It is usually difficult to collect revenue from them. "Patio" connections—outside connections serving a single residential building—though they are usually more convenient, and though revenues are more easily collected from them, have their drawbacks, too. Difficulties of wastewater disposal are often greater. Moreover, much study is required before the minimum size of distribution mains, required for a system

which moves through the various stages of standpipes, patio connections, and modern multiple-tap connections in houses, can be determined.

\* \* \*

Increasing worldwide concern as a result of growing population pressure led to the HABITAT Conference in Vancouver, Canada, in June 1976, and the World Water Conference in Mar del Plata, Argentina, in March 1977, where it was resolved that by 1990, everyone should have "reasonable" access to adequate supplies (i.e., a minimum of from 20 to 30 liters a person each day).

Over the next year, the World Bank and the World Health Organization (WHO), which already have a six-year old Cooperative Program to assess the specific water supply and sewerage requirements of individual countries, will be collaborating on developing a worldwide strategy for the 1980s—now known as the "International Drinking Water Supply and Sanitation Decade." This will incorporate evaluations, on a country-by-country basis, of the size of the problem, the alternative ways of coping with it (and the alternative costs), the commitment of governments to endorse and implement programs aimed at the 1990 target, and the prospects in each country for meeting this target.

To appreciate the problems in attaining the worldwide target, it is worth looking at the present levels of service and the forecasts of additional service which will be required by 1990.

About 80 percent of the urban population of the less developed countries has reasonable access to piped water supplies (60 percent through house or patio connections and 20 percent through public standpipes). For perhaps half these people, however, water supplies are intermittent and are subject, therefore, to the attendant health hazards. This is because when water pressure is not constantly maintained, impure water can seep into the water mains, either through faulty joints, or because the mains themselves are made of semi-porous materials.

In rural areas, only about 20 percent of the population has access to safe water. It is probably correct to state, therefore, that two-thirds of the people living in developing countries do not

have reasonable access to safe water. It has been estimated that if the 1990 target is to be met, an additional 150 million people will have to be provided with a minimum level of service each year until 1990, in a rural/urban ratio of about 2:1. At the same time, much of the existing service will have to be upgraded.

If the experience of the first half of this decade can be taken as a guide, annual investment for water will have to double for the urban areas and quadruple for the rural areas, while annual investment for sanitation must double and increase eightfold, respectively. Even then, levels of service by 1990 would only be "basic"—i.e., they would be considered unsatisfactory in an industrialized society. Dispersed populations will continue to rely on individual sources of water, while in communities, water supply development will be at various stages. Some communities will just have rudimentary aqueducts and storage tanks to supply a few house connections in the richer areas, and public standpipes for the rest of the people in range of the distribution network. Those who live in more affluent communities will have a higher proportion of patio or house connections, together with a larger number of standpipes, bringing them closer to the users; in such cases, treatment plants will usually have been added to the water supply network.

To reach the 1990 target, all governments will have to increase the emphasis on water supply in their development plans; commitments by international agencies, such as the World Bank and WHO to assist in developing feasible programs will have to be increased; and benefiting communities will have to increase their efficient use of water supply systems.

The challenge of providing convenient and adequate supplies of safe water for everyone is not new, but as a result of recent demographic and economic growth, it has become urgent again, and it must be met before much more water flows under the bridge.

*Mr. Bharier is a Senior Economist in the Energy, Water, and Telecommunications Department of the Bank.*



A bilharzia patient under treatment in Egypt. About 800 million people are without basic health services.

### Needs... Cont'd.

over time—as they should. Moreover, basic needs will vary depending on whether the objective is (a) bare survival, (b) continued survival, or (c) productive survival, and whether only the material or certain non-material needs are also taken into account.

Nonetheless, a list of “core” basic needs can be narrowed down to five (food and nutrition, drinking water, basic health, shelter, and basic education) and defined as follows:

—**Food:** An adequate basic diet is the daily intake of sufficient protein, carbohydrates, fats, vitamins, and minerals to allow human beings to conduct the required physical and mental activities in good health. The average daily per capita calorie requirement for such survival is about 2,350 for an adult male. The present population getting less than this requirement is estimated at roughly 930 million.

—**Drinking water:** The basic need for drinking water is defined as reasonable access to water that does not contain any substances harming the consumers' health or making the water unacceptable to them. Reasonable access is defined as availability of public hydrants within 200 meters in urban areas. In rural areas, the source of water should be sufficiently close so that no disproportionate part of the day is spent fetching water. The populations unserved by clean, drinking water are estimated at roughly 1,200 million.

—**Basic health:** Basic health services are the public and private measures needed to prevent and cure the most common, avoidable or curable diseases, and other forms of bodily harm. They include, among others, maternal and child care and instruction of the population in elementary sanitation and nutrition. Basic health services may also include family planning measures. The number of people presently deprived of these basic health services is estimated to be at least 800 million.

—**Shelter:** The basic need for housing is more difficult to define, but can probably be boiled down to the need for (usu-

ally a permanent) shelter which protects human beings, their families, or other social groups from harmful climatic influences and other dangerous factors in their natural environment. Basic housing represents the minimum socially acceptable dwelling standards among the poorer strata of society. There are no reliable estimates of people deprived of basic housing, but their number is likely to be at least 800 million.

—**Basic education:** Basic education is intended to provide a functional, flexible and low-cost education for those whom the formal system cannot yet reach or has already passed by. The “target groups” of basic education are not necessarily school-age children; they may vary according to age (children, youths, adults) and socioeconomic characteristics (rural-urban groups, women, participants in particular development programs). The present population deprived of basic education is estimated at roughly 1,100 million, i.e., 300 million children out-of-school, and 800 million adult illiterates.

Assuming that a country defines the basic needs of its people and makes their early achievement a primary objective of its development strategies, what operational policies would this lead to? It is impossible to say with great precision, though the discussion so far has led to the identification of at least three main components of policy. On the first two, there is substantial agreement; on the third, there is continuing controversy:

—increasing the productivity and income of the poorest sections of society by making improved means of production available to them;

—redesigning and expanding public services so that the poor get an easy access to them; and

—ensuring, through intelligent supply management, that greater income of the poor is matched by greater supply of basic wage goods.

There is a fairly wide agreement on the first two elements—increasing the productivity of the poor and expansion of redesigned public services. The only differences lie in the relative emphasis on these two programs. The third element—supply management—however, raises far

more emotions and ideological controversies.

The proponents of basic needs contend that, in a poor society, the production of non-essential goods (apart from exports) should be tightly controlled; all incentives and market signals should be modified towards the production of basic wage goods and services; the state should stand ready for large-scale market intervention if the existing markets are a slave to the interest of the privileged groups. Without these further steps, the increased income in the hands of the poor may largely evaporate into higher prices if corresponding supplies of basic wage goods are not readily available.

The opponents of basic needs programs fear that such market interventions will often be inefficient, serve only the interests of the ruling elite, and are probably a “soft-sell” for communism. At the height of this debate, often poverty gets forgotten and ideology takes over.

It is not possible to give a consensus view in this area, since no consensus really exists. Probably, there would be a large measure of agreement that income of the poor should be matched by real supplies to the poor. The extent to which existing markets and decision-making structures can ensure the emergence of such supplies (and non-emergence of non-essential goods) is likely to be a matter of continuing debate.

### A Revolution Required?

In the last analysis, it is an operational issue which should be empirically tested: to what extent various societies wish to, or can, deny non-basic goods to those who have the income and the power to influence existing market structures? What type of market interventions have succeeded, or failed, in meeting basic needs? Under what circumstances? Are there any efficient delivery systems, besides public services, for directing supplies to specific target groups: for instance, in ensuring adequate nutrition to school-age children? The answers will, of course, be different in different societies, which does not mean that the problem of matching income and supplies for the poor disappears or becomes irrelevant to the search for meeting basic needs in a manageable period of time.

Behind all these controversies lurks the uncomfortable political question: can all this be done in a reformist fashion? Are the political decisions so fundamental as to require a revolution? The only possible answer is that most societies are likely to proceed in a pragmatic fashion and would try a gradual, partial, and reformist approach. However, this is a field where economic analysis ends and other disciplines take over. While much has been written on world poverty, little analysis has gone, so far, into the political, institutional, and administrative framework required to make a successful attack on poverty and to remove obstacles to fulfilling basic needs. Some interdisciplinary studies in this field must be organized soon.

If the developing countries seriously set themselves the objective of meeting the basic needs of the majority of their populations in a reasonable period of time, say by the end of this century, what are the policy implications of this for international action? Before proceeding further, let it be recorded for the purists that neither all the developing countries are likely to adopt such an objective simultaneously nor is there a particular sanctity about the year 2000. The intention is to review the dimensions of this problem in a specific time frame and to mobilize national and international efforts for the common objective. Moreover, global estimates, by their very nature, represent the lowest end of the scale, since they are worked out from minimum standards of basic needs.

Considerable work has been undertaken on global estimates by various institutions and organizations, though strictly on a sector basis. With all the qualifications that such estimates are usually subject to, the overall conclusions are as follows:

1. A basic needs program, aimed at providing minimum acceptable diets, drinking water, sewerage facilities, public health measures, basic education, and upgrading of existing shelter, might require an additional annual investment of nearly \$20 billion over a 20-year period (1980-2000) in 1975 dollars and prices.

2. If annual recurrent expenditures are added to the investment costs (as they must for any successful implementation of these programs), the annual costs will add up to about \$45 billion-\$60 billion.

3. If the task is to be accomplished by the year 2000, the cost of the program appears to be beyond the capabilities of the developing countries *alone*, particularly the low-income countries, where absolute poverty is concentrated. The annual additional costs (recurrent and capital) of the basic needs programs for low-income countries might be in the order of \$30 billion-\$40 billion, which is 12 percent to 16 percent of their average gross national product during the period and 80 percent to 100 percent of their gross domestic investment.

4. This means that either the poorest countries will have to extend the time period for achieving this objective much beyond the year 2000, or they will require considerable additional transfers of concessionary resources from the rich nations, as well as redirect their existing investment and current expenditures.

5. If the rich nations underwrite about 50 percent of the additional costs of the basic needs programs, this would require about \$22 billion to \$30 billion a year, or about 0.35 percent of their future GNPs. These amounts can be provided if there is both a real increase in Official Development Assistance (ODA) levels and if at least the incremental ODA is mainly redirected towards the poorest nations and the basic needs programs.

The specific numbers must be treated with great caution, but the overall conclusion is quite obvious: the objective of meeting basic needs of the vast majority of mankind by the turn of this century is not beyond reach, if developed and developing countries choose to collaborate on this essential task.

Nov.-Dec. 1977

## Report

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## Persuading by Radio

# Iodized salt: "Si!" breastfeeding: "No!"

By Jonathan Gunter  
and James Theroux

According to Unesco figures, there are at least 75 million radio receivers in the Third World, which would average one for every 30 to 40 people. Access to the medium has now been extended to the majority of Latin Americans, and to sizable minorities of all Africans and Asians. The needs of these primarily out-of-school audiences for basic continuing education are vast. For many, radio represents the only regular contact with the world beyond the village or the neighborhood. Yet, less than 5 percent of the Third World's total hours of radio programming are classified by Unesco as educational.

Clearly, educators have failed to conquer the world's dominant mass medium. This is not due to lack of recognition of the reach of radio. We contend that educators—drawn to radio because of its low cost and mass audience potential—have chosen to use the medium in ways which usually preclude their attaining truly low costs and massive audiences.

Mass audiences must be courted and won on their own terms. Unlike classrooms, farm forums, or radio schools, mass audiences are not "captive" audiences. Adult educators often fail to realize the implications of these basic facts. It is not enough to promise desirable long-term rewards (learning, vocational skills) to a mass audience and to proceed to teach over radio in traditional ways.

Success with a mass audience means reaching more than those highly motivated enough to join and stay in a farm forum or a radio school. One must assume that the mass audience, although interested in learning and self-improvement, lacks peer reinforcement of group listening and is susceptible to emotional appeals. With other stations on the radio dial offering music, soap operas, and light entertainment, mass audiences may flick the dial the moment they become bored, tired, or unable to follow instruction.

Thus, mass audiences differ from organized, group audiences in their desire for entertainment and escape. The surest way to lose a mass audience is to presume to preach or teach. The surest way to attract and hold a mass audience is to offer immediate and continuous emotional gratification—as well as education.

\* \* \*

When in 1972, they employed a successful New York advertising firm to assist in their educational program, Ecuador's National Institute of Nutrition was guaranteed an innovative project. Never before had radio advertising techniques been so systematically applied to educational needs in a developing country.

The difference in philosophy between traditional educators and commercial advertisers is extreme. Educators generally attempt to instill great changes (literacy, numeracy, job training) in small groups of people. Advertisers court a mass audience, and aim at more modest behavioral changes (switch from brand X to brand Y of an established consumer product).

While educators recognize individual differences and spend great amounts of time with their relatively "captive" audiences, advertisers relate quite differently to their audiences. Advertisers build on mass needs and communicate through cultural stereotypes (such as the housewife using aspirin to cure a headache).

Advertisers use the "reach and frequency" method, repeatedly injecting the same short message into the pauses between the entertainment programs most popular with their target audience. In Ecuador, nutritional "spots" were repeated 10-15 times a day for over a year on popular radio stations in two provinces.

Each of the minute-long "spots" was designed to discuss a specific nutritional problem, and to offer a realistic and economical solution. Using a drama format, each message was aimed at achieving very specific objectives:

*Message on protein-calorie malnutrition:* To increase the frequency with which beans and other low-cost sources of protein are served; to increase the knowledge about which foods are sources of protein; to increase the knowledge about the function of protein in the body.

*Message on early departure from breastfeeding:* To increase the status of breastfeeding among poor mothers, compared with giving other milk to their babies; to increase the recognition of the valuable attributes of breast milk as compared with other types of milk; to increase the knowledge about the steps for preparing other kinds of milk.

*Message on unsanitary drinking water:* To increase the incidence and frequency of boiling drinking water for the family; to increase the understanding that drinking unboiled water results in illness; to increase the number of families who consider their drinking water to be contaminated or not pure; to increase the number of families who cover their drinking water.

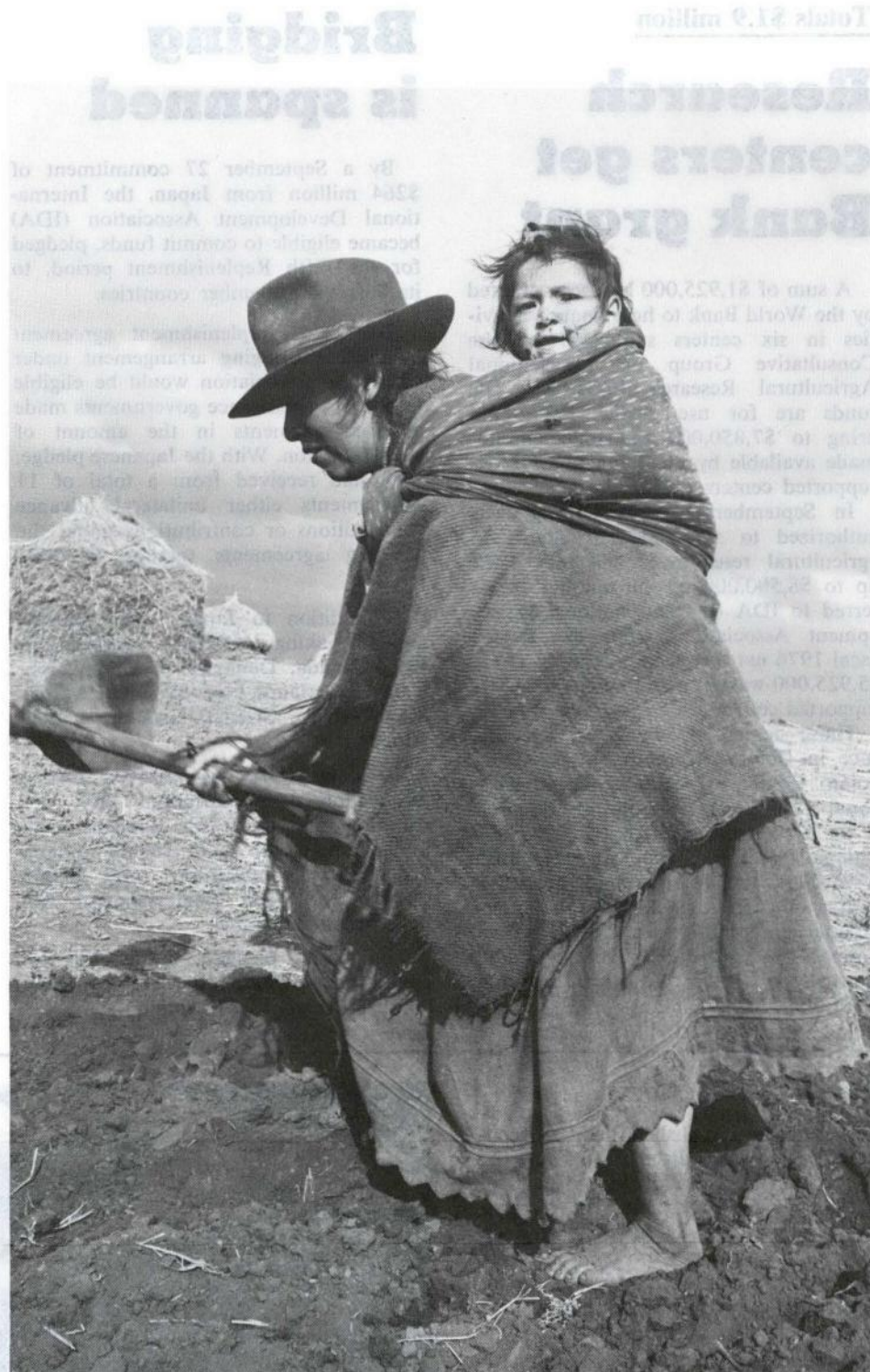
*Message on parasites, diarrhea, and other intestinal problems:* To increase the frequency of adults and children washing their hands after using the latrine, before eating, or preparing food; to increase the use of soap when washing hands; to increase the number of respondents who understand that washing hands may kill parasites and will help to avoid illnesses.

*Message on iodized salt:* To increase the frequency of purchasing iodized salt; to increase the number of respondents who understand the cause of goiter; to increase the number of respondents who know that iodized salt is sold only in a distinctive package; to increase the number of respondents who understand that goiter is a serious illness.

Each objective and its corresponding message represented the outcome of a thorough and painstaking process. Experts in health and nutrition were consulted regarding priority problems. Recommended solutions were screened for their ability to be achieved by the target audience with only informational and motivational inputs.

Once a small number of appropriate themes had been chosen, messages were written, circulated to experts for comment, and then produced in draft form. The messages were then pre-tested by playing them on cassette recorders in 100 to 200 target group households, and their attractiveness, effectiveness, and credibility for the audience was discussed.

Once revised on the basis of pre-test data, the messages were recorded, pressed on discs, and distributed to the cooperating radio stations. A schedule was developed that responded to the target audience's media habits. According to project personnel, regular follow-up with the station was extremely important to in-



Tilling the soil in the Ecuadorean Andes. Though radio "spots" were successful in altering attitudes, they were less suited to promoting profound psychological changes.

Photo: F. Botts for FAO

sure adequate frequency. Once station personnel had heard the spots several hundred times themselves, they assumed the spots must have had their effect upon the audience and stopped playing them. However, according to US commercial advertising experience, the spots were having their greatest impact at this moment, and needed to be continued.

In interviews at the end of the campaign, most people in the target groups claimed to have access to a radio: 83 percent of coastal mestizos, 85 percent of highland mestizos, and 64 percent of the poorer highland Indians.

In a majority of households, sampled respondents demonstrated awareness of the "spots" through unaided recall of specific information from each message. Attitudes toward breastfeeding improved despite competition from advertisers of formula and powdered milk. The messages about the importance of eating protein, boiling drinking water, and washing hands before eating was also successful at the levels of awareness, knowledge, and attitude.

The mass impact of this learning is amazing for the educator to contemplate. Despite planned oversampling of rural areas and low-income populations, pro-

jecting results to the level of the two provinces covered by the broadcasts gives a rough sense of the messages' impact. According to such a projection, the messages on protein, boiling water, washing hands, and lactation reached over 100,000 households. Even if these figures were off by a factor of 50 percent, some 50,000 households—probably a quarter of a million people—learned the basic nutritional concepts portrayed in the spots. And this audience resulted from a project active in only two of Ecuador's 21 provinces.

On the level of behavioral change, the iodized salt message was immensely successful. Whereas only 5 percent of highland mestizos used iodized salt before the campaign, fully 98 percent of those sampled who had heard the message had begun using iodized salt. On the other hand, few of the other messages—which were so successful at the level of awareness and knowledge—achieved significant behavioral change. Why was this so?

Although distribution was improved during the campaign, iodized salt had previously been available to the target group. Though there was no difference in price between the two types of salt,

Totals \$1.9 million

## Research centers get Bank grant

A sum of \$1,925,000 has been granted by the World Bank to help finance activities in six centers supported by the Consultative Group on International Agricultural Research (CGIAR). The funds are for use during 1977, and bring to \$7,850,000 the total amount made available by the Bank to CGIAR-supported centers during the year.

In September 1976, the Bank was authorized to set aside for grants to agricultural research in calendar 1977 up to \$8,500,000 of the amount transferred to IDA (the International Development Association) from the Bank's fiscal 1976 net income. In January 1977, \$5,925,000 was granted to eight CGIAR-supported centers.

Those centers receiving Bank assistance in October were the International Potato Centre (\$245,000), the International Centre for Agricultural Research in the Dry Areas (\$200,000), the International Institute of Tropical Agriculture (\$825,000), the International Livestock Center for Africa (\$180,000), the International Laboratory for Research on Animal Diseases (\$300,000), and the International Rice Research Institute (\$175,000).

## Bridging is spanned

By a September 27 commitment of \$264 million from Japan, the International Development Association (IDA) became eligible to commit funds, pledged for the Fifth Replenishment period, to its borrowing member countries.

The Fifth Replenishment agreement included a bridging arrangement under which the Association would be eligible to commit funds once governments made advance payments in the amount of \$1,200 million. With the Japanese pledge, IDA had received from a total of 11 governments either unilateral advance contributions or contributions under the bridging agreements totaling \$1,248.1 million.

In addition to Japan, other governments making advance contributions were Canada, Denmark, Germany, Kuwait, Netherlands, Norway, Saudi Arabia, South Africa, Sweden, and the United Kingdom.

To date, IDA has received formal notification of subscriptions and contributions for the Fifth Replenishment in the amount of about \$3,400 million. When these contributions total \$6,000 million, the Fifth Replenishment will have become effective.

The amount pledged for the Fifth Replenishment period, July 1, 1977 to June 30, 1980 totals \$7,638 million.

### WORLD BANK LOANS, AUGUST-SEPTEMBER 1977

Country	Purpose	Amount (\$ millions)
Brazil	Rural development	17.0
Colombia	Nutrition	25.0
Cyprus	Rural development	10.0
Ecuador	Project preparation	11.0
Egypt	Suez Canal expansion	100.0
Indonesia	Nonformal education	15.0
Ivory Coast	Water supply	16.0
Morocco	Casablanca sewerage engineering	1.5
Thailand	Hydroelectric power	50.0
Total, August-September 1977		245.5

### IDA CREDITS, AUGUST-SEPTEMBER 1977

Country	Purpose	Amount (\$ millions)
Chad	Sahelian zone	1.9
India	Orissa irrigation	58.0
Somalia	Education	8.0
Sri Lanka	Development finance companies	8.0
Togo	Cotton	14.0
Total, August-September 1977		89.9

### Advertise... Cont'd.

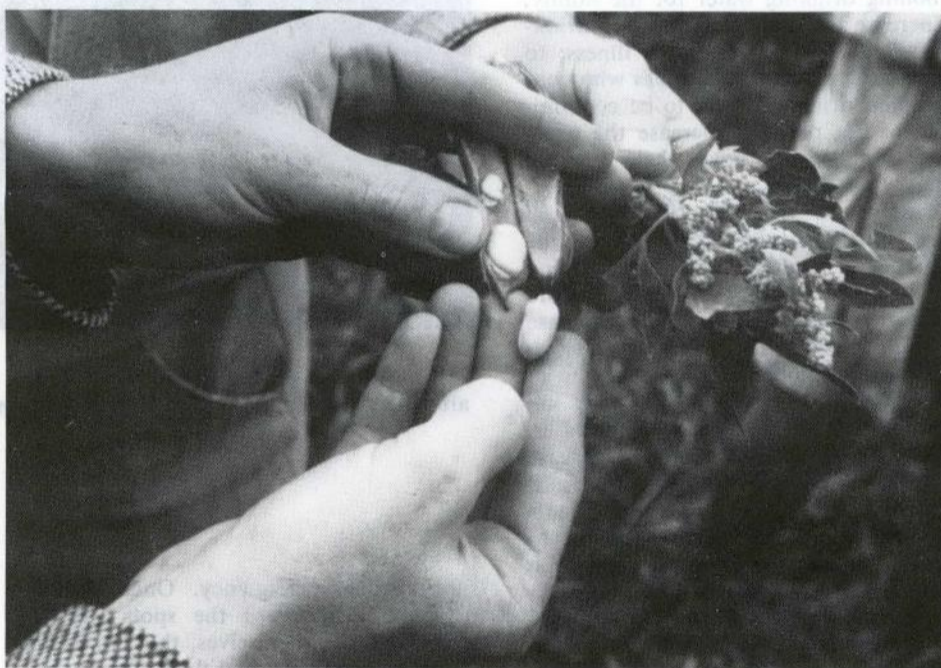
there was an established habit of consumption of non-iodized salt. Thus, the only major impediment to iodized salt usage seemed to be its lack of recognition as a nutritionally superior product. The situation was not too different from the "brand X-brand Y" situation, where commercial advertising can perform so well.

On the other hand, the less successful messages called for more significant changes in behavior. Several of the protein-rich foods recommended were relatively expensive. Legumes may not have been available. People may not have been used to eating legumes as a major part of their diet. In addition, boiling drinking water is tedious, and requires expensive fuel.

Part of the inability to document behavioral change was methodological. People aware of the benefits of boiling drinking water or washing hands before eating tended to respond to interviewers that they do these things—whether or not they actually do them. Without participant observation research, it is very hard to verify such statements. On the other hand, iodized salt consumption can be verified by sales data and by looking for the products in the households of interviewees.

Another standard verification technique was recommended but could not be implemented. Commercial advertising research has shown that people who will not talk openly about their own behavior, often will do so in references to their neighbors. And, in answering such "reference questions," they often, in fact, describe their own true behavior. Ecuadorean authorities decided that this approach was not compatible with their culture, and would not allow its use.

Another type of limitation on behavioral change might be described as policy-related. When a message is sponsored by a national institution, and is broadcast throughout two provinces, it must be in full accord with national policy. For high



Quinoa beans: an Andean region pulse that supplies protein.

Photo: Manoff International, Inc.

impact, the message must be clear, simple, and direct. This requires a consensus on complex policy issues which is not always present.

For example, the most powerful message on breastfeeding would have held that mother's milk alone is the best diet for infants. Some experts believed this to be true. Other experts, including several from Ecuador's National Institute of Nutrition, felt that breastfeeding should be used only in conjunction with solid foods. The message that was used accommodated to this difference of opinion, and may have lost impact.

The most powerful message about boiling water would have been that all drinking water should be boiled. Some experts believed this to be true. However, other experts believed that the drinking water in large areas of the country was safe to drink without boiling. Thus, the message used on this topic was also weak-

ened in impact because of the type of unresolved policy issue which affects all governments.

In spite of these problems, we do not wish to leave readers with the notion that advertising is only effective in "brand X-brand Y" situations. Much was learned from the initial Ecuadorean experience, which has improved the methods and results now being reported in subsequent projects. For example, in two countries, strategic decisions are planned for either building consensus in ambiguous policy areas, or for abandoning the planned messages in those areas. More extensive training of interviewers and use of additional research for cross-checking results are being incorporated into subsequent projects.

Furthermore, tentative results from other countries have already demonstrated success in more ambitious attempts to change behavior. In Nicaragua,

nationally broadcast advertisements have motivated mothers of infants with diarrhea to prepare and administer in the home large quantities of fluids—an idea which was previously unknown to them. The recipe for the beverage was heard on the radio and memorized. In this case, there had been consensus among Nicaraguan nutritionists that this was the correct remedy for dehydration. Information had also been collected on the cost and availability of the ingredients needed to prepare the remedy. As a result of the messages, the infant mortality rate should drop. Since one in five deaths in the country has been attributed to infant diarrhea, this short message could have a major impact upon the health situation in Nicaragua.

Thus, it would seem possible for advertising to deal with objectives larger than switches from un-iodized to iodized salt. Although the range of objectives suited to this method remains undefined, certain basic limitations upon the method can be mentioned.

Aiming at the mass audience, advertising treats problems which affect everyone and about which anyone can take individual action. To date, the method has been applied to small, high-impact behavioral changes which do not require input of new goods or services. While it could be used in conjunction with programs delivering goods or services (in health, nutrition, or agriculture) advertising does not seem to be suited to promoting profound psychological changes in individuals or groups.

This article has been adapted from Chapter 10, "Open Broadcast Educational Radio: Three Paradigms," in **Radio for Education and Development: Case Studies**, World Bank Staff Working Paper no. 266 (Washington, D.C.: World Bank, 1977), pp. 338-344. The Paper may be obtained free by writing the Publications Unit, World Bank, 1818 H St., N.W., Washington, D.C., 20433.

THE WORLD BANK

ROUTING SLIP

DATE:

December 14, 1977

NAME

ROOM NO.

Mr. W. Clark

Mr. Streeton

Mr. Haq

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:

You may be interested in this discussion of basic needs during the DAC review of U.S. aid.

FROM:

Shirley Beskey

ROOM NO.:

1-823

EXTENSION:

2173

## OFFICE MEMORANDUM

TO : Mrs. Shirley Boskey

DATE : December 9, 1977

FROM : Mark Cherniavsky *MC*SUBJECT : DAC Aid Review - USA (November 29, 1977)*cc WDC  
Sirekian  
Hick*

1. The US delegation, led by Deputy Administrator Robert Nooter, said in their opening statement that

*V. Chen*

- This was a transitional period for US aid policies as the round of Administration and Brookings reviews was completed, and their conclusions implemented. The BHN orientation to US aid was now firmly entrenched, without however precluding aid for the middle income countries (on harder terms).

- Human rights was also a relevant consideration, applied on a case by case basis.

- The reorganizational thrust in USAID was towards greater decentralization to field missions (but improved accountability to headquarters).

- The focus on BHN required USAID to recruit a new generation of field workers who could give practical meaning to this objective.

2. Mr. Nooter observed that the main problem in Congress was about the IFIs and human rights, while BHN had a wide spectrum of political support. Indeed, public opinion seemed to be in advance of the Congress in its support of aid which would help the poor majority participate in economic growth and improve their well-being. It was encouraging that the public had, on the whole, a greater awareness of North-South issues than was the case some years ago.

3. The Dutch (one of the examiners) noted two major shortcomings in US aid performance: the low ODA ratio (0.25 percent, with no change anticipated until FY 79) and allocation criteria which were not thoroughly developmental, if P/L 480 assistance and security-supporting aid were included in the totals. The tragedy was that the US, instead of fulfilling its natural role of 'aid locomotive' was providing, through its very poor performance, the very pretext other governments needed to do less rather than more for the LDCs. It was pathetic how at CIEC, the major donors 'hid behind' American indifference.

4. On the inadequate aid volume, the US delegation said that President Carter had promised (at the London Summit) substantial increases within five years. This, too, was the recommendation of



the reviews mentioned above and Congress had acquiesced tamely in the Administration's FY 78 program, cutting it by only 4 percent (a record low). While the delegation was optimistic that volume would slowly improve, regretfully they could not quantify this expectation beyond specifying the FY 80 target of \$1.4 bn (compared to \$800 mn in 1974). Within the total, supporting assistance would stay at about the same proportional level. There would probably be proportionally more for IFIs but this depended 'on what others did and what the institutions could handle'.

5. While US food aid might tend towards a stable level, the delegation guessed that the biggest increases might be seen in the bilateral aid program which it described as a "highly leveraged swing item". There was a gut feeling in the Administration that BHN could be handled best bilaterally, rather than multilaterally. Asked how this could be done within the rigorous manpower ceilings to which USAID operated, the delegation said that this was difficult, but experience suggested that the better and longer a small, cohesive field mission was implanted in a given country, the higher its productivity in terms of project-processing. Also, USAID was increasingly a "wholesaler" of aid, leaving more of the downstream work to the borrower. The pruning of USAID staff had been dramatic: it had peaked at 10,000 and was now down to 4,000, with a much higher proportion away from headquarters. (The field missions were several times smaller too, viz. in Indonesia USAID now had 50-60 staffers against several hundred in earlier times.) The Congress wouldn't let USAID cut corners by moving resources out of project aid into programs; a BHN-focussed aid strategy would only stand up to Congressional scrutiny if it, too, was highly projectized. However, on local-cost financing - another vital element in BHN projects - USAID's hands were relatively free.

6. The French opined that over-zealous concentration on BHN projects actually slowed up aid flows. So was this just another stratagem by the US to let its ODA wither on the vine, instead of increase, as had been promised so often? The French felt that BHN-oriented assistance, laudable and necessary as it was, should not become more than a complement (albeit, in willing countries, a large one) to assistance for infrastructure and industrialization. Moreover, it should be clearly 'additional' and not an alternative to modern-sector assistance. To this the Americans characterized their BHN policy as follows:

- It was not 'additional' to normal aid flows. It would be focussed in countries where the politico-economic framework was conducive to helping the poorest; inasmuch as these countries were 'favored' by the Administration, they would get more than they might otherwise have received (and others would get less). In this sense, BHN could mean additionality for some countries, and the reverse for others who were not respectful of human rights and of the needs of the poor.

- USAID wasn't naively hopeful about BHN: to be sure, macro-economic policies (and the support aid agencies gave them) vitally affected the poor, as much as "direct action".

- The provision of infrastructure and capital goods was obviously not irrelevant to alleviating poverty. Moreover, some infrastructure was actually BHN-oriented (rural electrification).

- USAID preferred the clarion cry to be 'growth with equity' because the language of BHN smacked of welfare handouts. To put it another way: BHN and growth were co-equal objectives in the US view.

- The change which had taken place in USAID policy was irreversible: the realization of the priority which must be given to abolishing poverty had changed everyone's perceptions from top to bottom.

7. The UK delegation reminded the US that aid volume was critical, whatever the sweet words about BHN. Indeed, maybe the reason the 'trickle down' process failed to meet expectations was because there had never been enough to trickle down. The same frustration would be felt with BHN unless volume matched up to requirements. The Chairman caustically remarked that in the US case the issue was not "trickle down" but simply whether there was any kind of trickle at all. The recent record was just awful, and the LDCs no longer gave much credence to the utterances of US officials on aid matters, and they were skeptical about America's true intentions in emphasizing BHN.

8. Asked about the Special Action Fund, the US delegation said that the American contribution (\$90 mn in FY 78 and \$285 mn in FY 79) would go through normal USAID channels, the qualifying criterion being that the countries must be IDA-eligible. India would be one of the recipients now that it was off the Untouchable list. As to the effect human rights considerations would have on US aid, it was likely to be evidenced more in the IFIs (by voting restrictions) and with P/L 480 allocations than with the bilateral program, although in specific cases its distribution (but not overall volume) would also change as a result. The Dutch suggested that there was an inconsistency between advocating BHN - a "people" issue - and human rights, which was a "government" issue. The delegation replied that P/L 480 and food aid would not be influenced by human rights considerations; only the rest of the USAID program.

9. Asked by the Swedes if USAID could be more aggressive in its information policies with the American public, the delegation explained the constraints imposed by Congress in this domain. Pressed to say whether there was any prospect of greater untying of US aid, the delegation said bluntly no. Their foremost concern was to release more funds from Congress to seek to untie it as well would just vitiate their hopes. Nor, despite occasional hints from Governor Gilligan, was there any serious likelihood of debt relief for LDCs: these were just the Governor's trial balloons.

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8. The Canadian delegate observed that BHN was only one third of the US program and its importance should not be over-emphasized. Some questions followed as to whether the concept of BHN was all that new. The US delegation admitted that much of the rhetoric was old wine in new bottles; the Chairman commented that to his mind, the new perception was that "aid ought to be adequate to do a certain task, namely to meet BHN". He described it as a 'task-setting' process for aid, something which went beyond the traditional objective of helping those in need. The difficulty was that the satisfaction of BHN could be satisfied only if the government put the necessary framework in place; this was often not the case, and because BHN did not easily lend itself to packaging as projects, the result could be (as delegates had observed) less aid rather than more. Looking at the US track record, it was understandable why this suspicion was so strong.

9. The meeting closed with a few questions about the nature of 'security supporting' assistance. The delegation indicated that the primary allocation criteria was political (hence the heavy concentration in the Middle East at the present time) but that much of the assistance was used for patently developmental purposes, rather than military or general balance of payments ones. Program lending and financing of intensive capital projects was less constrained by Congress if the operation was for security assistance. So this aspect of the US aid program was beneficial, and fully complementary to the policy objectives and lending program of USAID.

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PAKISTAN: OPERATIONAL IMPLICATIONS OF ADOPTING BASIC  
NEEDS TARGETS

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BASIC NEEDS TARGETS

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## SUMMARY AND CONCLUSIONS

i. In terms of aggregate growth, Pakistan has fared better than other countries of South Asia. In the thirty year period since independence in 1947, Pakistan's gross domestic product increased at the rate of 4.1% per annum, compared to 3.9% for Sri Lanka, 3.5% for India, 2.8% for Nepal and 2.2% for Bangladesh. However, in terms of social development, it has not done as well. Its rate of literacy and life expectancy at birth are lower and its rate of infant mortality higher than the average for South Asia. This relatively low level of social development is due, in part, to a very rapid growth of population - at 3.1% per annum it was the highest in South Asia - and in part because of the neglect of social services by the government. One consequence of not meeting the basic needs of the people would be to keep the fertility rate at its presently high level. If this happened, the country's population could increase from 80 million in 1977 to 190 million by the end of the century.

ii. Arguing that without a strategy aimed at meeting basic needs, Pakistan could face a very uncertain economic and political future, this paper attempts to identify the target groups as well as sectors that need immediate attention. In providing this attention, the government will have to redesign public health and educational services as well as raise the level of incomes of the poorer groups. The paper suggests that three basic needs (health, education and sanitation) can be best met by public sector expansion and three other (food, shelter and clothing) by an increase in the real incomes of the poor.

iii. Among the target groups, the most important are male children under the age of five and female children between the ages of 5 and 10. The first group is important because of its high rate of mortality which translates into a desire for larger families and, consequently, higher rate of fertility. To reach this group, Pakistan will have to redesign its health services with much greater emphasis on rural areas. The paper recommends a system of inter-locking health delivery systems, with Rural Health Centers (RHCs) located in the villages, feeding larger hospitals situated in towns and cities. RHCs would be staffed mostly by paramedics to be chosen by villagers for such training. This system could be put in place over a period of ten years at a cost that will increase the share of the health sector in GNP from the presently very low level of 1% to 2% by 1987.

iv. The second important target group - girls between the ages of 5 and 9 - must be provided with better opportunities of acquiring literacy. Out of 6.4 million children not attending primary school, nearly two-thirds (4.1 million) are girls. Since female education and participation in the

labor force are strong determinants of fertility decline, a continuing neglect of this group would serve to keep fertility rates high. The program of school construction and teacher training proposed here will also have a rural focus. This program will raise the share of primary education from the present 0.7% in GNP to 2.0% in 1987.

v. In so far as the basic needs of nutrition, health and housing are concerned, the paper argues that the most efficient way for meeting the appropriate goals is to increase the real incomes of the poor. The poor have a higher "efficiency factor" in fulfilling these needs through their personal expenditures - of every additional dollar of income, 0.85 cents will be spent on these three needs according to the household expenditure surveys. To increase the share of incomes of the poor, the paper suggests a strategy that the Bank has already put forward in its work in the areas of rural development and urban poverty. That is to say, the paper recommends:

- a greater emphasis on increasing small farmers' productivity. Increasing the small farmer productivity to the level achieved by the middle sized farmers would provide an additional 550,000 tons of grain, sufficient to close nearly 80% of the present nutritional gap;
- deemphasis on the large scale industrial development in favor of small scale enterprises. A job in a small scale enterprise can be created at an investment of Rs. 5,000, compared with Rs. 500,000 in industries such as steel and chemicals. By diverting Rs. 10 billion from large to small scale enterprises, 2 million additional jobs could be created. These jobs will be created in small scale enterprises that have strong backward linkages to domestic agriculture, are least dependent upon imports of raw material and equipment and can make a substantial contribution to increasing the country's exports;
- deemphasis on physical infrastructure such as highways and railways in favor of the projects that would better incorporate the very large rural sector into the economy. This would mean abandoning such projects as the Karachi Steel Mill, the Indus Highway, nuclear power plants and Islamabad Sports Complex in favor of small scale enterprises, rural roads and village electrification.

vi. In order to bring about this shift in priorities, the government will have to take some difficult decisions. For instance, to improve the productivity of the small cultivators - the most efficient way for increasing the nutritional intake of a very large number of rural poor - the government

will have to deliver inputs to farms with average size of less than 2.5 acres. This seems possible only if the small farmers can be persuaded to consolidate their holdings into larger units and/or strengthen production and marketing cooperatives. This will not be easy. Again, in order to provide additional resources for the development of small scale enterprises, the government will need to eliminate a number of projects (cited in paragraph above) to which either substantial resources have been committed or which were included in the plan because of the prestige they lent to the development effort.

vii. Raising household incomes to meet basic needs will take care of only one part of the problem since the efficiency factor of 85%, referred to in paragraph (v) above does not apply to individuals within the family. This means that, because of maldistribution of resources within the family, an increase in income may not provide basic needs to the target groups deserving special treatment. For instance, of the 19 million undernourished people in Pakistan, seven million are children. Of these seven million, five million are girls. This in part explains why female child mortality is about 20% more than that for males. Education and social change will be necessary elements in improving the nutritional situation of children within poor families.

viii. An increase in public investments would be crucial in meeting the basic needs in education, health and sanitation. The paper recommends an expenditure, over the next decade, of Rs. 22 billion in 1977 prices, to increase from Rs. 0.7 billion in FY77 to Rs. 3.1 billion in FY87, a rate of growth of about 16% per annum. At this rate of increase, the public sector expenditure in these sectors would be of the order of 10% in total development expenditure compared with only about 4% in the past.

ix. Implementation of the strategy proposed here will have a major impact on alleviating absolute poverty in the country. This strategy would provide:

- additional food to 19 million people and raise their level of nutrition to that required for maintaining health and productivity. After 1987, Pakistan should not have a nutritional problem;
- increase primary school enrollment from 5.6 million to 15.0 million thereby ensuring basic education to all children of school-going age;
- improve the standards of health so that the rate of mortality declines from 12.0 to 7.8 and the rate of infant mortality from 113 to 75;
- add 300,000 additional housing units for the poor thereby tripling the present stock of housing at their disposal; and
- provide an additional two million jobs in the industrial sector by shifting resources from the large to small scale enterprises.



x. While the financial burden of meeting basic needs within a decade is not insurmountable, there are many institutional problems within each sector which must be overcome. The present education system, for instance, is badly administered, lacks sufficient resources and is based on irrelevant content and ineffective teaching methods. As a consequence, 40% of the school-going children drop out before they finish primary school, and those who remain fail to learn even rudimentary literacy. Similar problems exist in the health, water supply and sanitation fields. Unless these institutional problems are overcome, the achievement of physical targets will not bring with it the meeting of basic needs.

xi. The strategy being proposed here need not be inimical to rapid growth of output. In fact, on the basis of a simple macro-economic model, it appears that it might be feasible to obtain a higher aggregate rate of growth - of the order of 6.0% per annum in the 1977-87 decade - as against 5.2% if the investment priorities proposed in the government's draft Fifth Plan (1978-83) are pursued. The increase in the rate of growth in the basic needs approach occurs:

- on account of greater efficiency in the use of capital as indicated by an incremental capital output ratio of 2.7 compared to 3.5 in the government's proposed plan as a result of a drastic reallocation of investment resources to priority sectors;
- in spite of a possible decline in the marginal savings rate from 15% to 10% because of the lower capacity of the poor people to save; and
- in spite of a planned decline in the flow of external resources from over 10% of GNP to about 5% to make the economy increasingly self-reliant.

xii. Apart from providing basic nutritional, educational, health, sanitational, shelter and clothing needs to the population, this strategy is also likely to reduce the rate of population increase from the present 3.1% and from the expected 4.1% to 2.3% during this decade. At this rate of increase, Pakistan will have a population of 100 million in 1987 compared to 80 million at present and a per capita income of \$233 (in 1977 dollars) compared with \$170 at present.

xiii. In order to implement this strategy, Pakistan will have to introduce some major institutional changes. The most important of these is a system of local government which would allow the people to participate in decision-making at all levels - villages, towns, cities, provinces and the nation. Pakistan had developed a successful system of interlocking local governments during the 'sixties. This arrangement was an effective channel of communication between the people and the decision makers. A similar system is needed now.

xiv. Such a system would not only provide the opportunity to the people to participate in planning for a better future for themselves, it would also make it possible to provide them with better public services, by mobilizing local resources, especially underemployed labor. For instance,

the systems of health and education proposed in this paper could be integrated with the system of local government. The Comilla experiment in East Pakistan and the Daudzai project in NWFP suggest that such integration not only improves the quality of public services but also reduces the cost of delivering them. In Comilla and Daudzai, the bulk of the recurrent expenditure on public services was undertaken by the local community.

xv. Without introducing a strategy of basic needs, Pakistan may have to pay high economic, social and political costs. For instance:

- with a 4.1% rate of growth in population, Pakistan would have a population of 113 million in 1987 and a per capita income of only \$184, \$14 more than at present;
- without a major reallocation of resources towards small farms and small scale industries, the opportunities for gainful employment for the poorest groups will remain very limited;
- failure to address basic needs in health, education and water supply/sanitation will mean a deterioration in the distribution of income, and larger numbers of people living in poverty. Combined with the prospect of stagnant per capita incomes, the result will be social and political unrest. Pakistan has already paid a high price for these disruptions in the past.

xvi. Finally, it should be pointed out that the strategy outlined above, while entailing difficult choices, does not assume absence of all political constraints. The proposed program of basic needs can be implemented without bringing about a radical political change. It does not call for either drastic land reforms, or total prohibition of luxury consumption, or heavy taxation of wealthier classes in society or a complete neglect of the sectors producing goods and services not included in the concept of basic needs. The reallocation proposals indicated in this paper will pose difficult choices but there is no well-organized, powerful pressure group advocating the retention of various non-economic projects in the investment plan. The main problems in implementing the strategy will be organizational, particularly how small farmers and small enterprises are encouraged and supported to increase their productivity.

xvii. This paper does not address itself to the nature and instruments of transition, nor does it aim at providing a comprehensive blueprint for policy action. The aim is a more modest one: to analyze the problems of absolute poverty and to identify areas where future work is needed to develop policy options. It is quite obvious that the period of transition and the pace of change will depend on the decisiveness with which the Government

can mobilize forces of political and economic change. There is likely to be a number of time lags in reallocating resources, in organizing small farmers and small industrial enterprises, and in building up new programs in the social sectors. This means that the change may be much slower than outlined in this paper and the time period over which basic needs can be met may be much longer. What this paper does, however, is to specify the nature of the decisions involved and to map out the broad direction of policies if the primary emphasis is to be on the meeting of basic needs of the absolute poor over a manageable period of time.

xviii. The main conclusions which emerge from this study for the top policy makers in Pakistan can thus be summarized as follows:

- (a) A strategy aimed at meeting the basic needs of the people in Pakistan, to be implemented over a period of a decade would not only alleviate the worst forms of poverty but also reduce by a significant amount the rate of population growth and quicken the growth in the national product. Without this focus, Pakistan is likely to experience a high rate of population growth and a sluggish expansion in its per capita income.
- (b) The focus on basic needs will have to be fairly selective if it is to be concentrated over a period of the next ten years. Widespread malnutrition or shelterless population are not the main problems in Pakistan. Redesigned education and health services are the key to meeting basic needs.
- (c) Once appropriate investment priorities and price signals are set, market mechanism can be used extensively to satisfy basic needs because of the present consumption pattern of the poor households. These households spend about 85% of their income on such basic needs. Overall, three basic needs (health, education and sanitation) can best be met by public sector expansion and three other (food, shelter and clothing) by an increase in the real incomes of the poor.
- (d) The most important target groups, from a longer term point of view, are male children under the age of five and female children between the ages of 5 and 10.. The government may, however, have to add to this list other politically

vocal and restless groups - such as educated unemployed, shelterless population in major cities, localized pockets of poverty - which need short-term political attention through specifically-targetted programs.

- (e) The overall financial resource implications of indertaking basic needs programs are not too large: public sector expenditure on basic needs public services will have to expand from the present 4% to 10% of the public sector development budget over the next ten years and there will need to be major reallocations within the present investment budget, from large scale, prestigious industrial and infra-structure projects, to small farms and small scale industries. But tough political decisions will be needed if some elements in the public sector current budget (e.g., defense, administrative expenditure) are to be squeezed to make room for the additional expenditure on the basic needs public services; or if additional public revenues are to be raised; or if some prestigious projects are to be abandoned or slowed down.
- (f) A basic needs program can be implemented without increasing the dependence of the economy on external resources. This is in part because Pakistan already has a large flow of external resources - up to 11% of its GNP in 1976. What is needed is a redirection of those resources.
- (g) One of the critical policy actions for increasing the income of the poor is to raise the productivity of the 1.62 million small farms, with an average area of less than 2.5 acres each and a productivity per acre of 0.40 tons of foodgrains. Without some pooling of key services (credit, water, fertilizer) to these small farms, it is not going to be possible to increase their productivity significantly or to reach those rural families where most of the present malnutrition is concentrated.
- (h) Another key area for policy action is the reorganization and management of small scale enterprises which provide 80% of the present industrial employment but only 20% of its output. This would require major changes in the present operational procedures of the DFCs in Pakistan as well as in the investment and import sanctioning policies.
- (i) The government will also need to take some decisions on the consumption patterns in the non-basic needs sector: it may have to use its present control over the allocation of scarce resources and/or fiscal means to control ostentatious consumption.
- (j) In order to implement a program designed to meet basic needs, Pakistan will need to develop institutions that would ensure participation in decision-making to the poorer segments of the population.

## INTRODUCTION

1. This paper presents a case for the adoption by Pakistan of a strategy aimed at meeting the basic needs of the people. The case is presented on grounds that include, inter alia, the following:

- the country's economic future depends to some considerable extent on the ability to bring about a substantial reduction in the presently very high rate of fertility. Provision of basic needs to the deprived segments of the population has an important role to play in reducing fertility rates;
- the resources required for meeting the basic needs of the people are not very high and can be managed by a combination of domestic and donor policies;
- a strategy that aims at meeting basic needs will not be at the expense of growth; in fact, it could contribute significantly to increasing the national wealth; and
- without a set of policies that provided people with basic needs in the not very distant future, the country could face a difficult political situation.

2. While the recent administrations have recognized the importance of alleviating basic forms of poverty - the draft Fourth Five Year Plan (1970-75) released by the Ayub regime just before it fell in March, 1969, the revised Fourth Five Year Plan to which the Yahya regime (1969-71) gave its support and several versions of the Fifth Five Year Plan during the Bhutto period (1971-77) all put considerable emphasis on "minimum levels of consumption" - the full implications of such a strategy were never carefully worked out. This paper takes a step toward this direction by making a tentative effort in:

- incorporating a basic needs program in a macro-economic framework;
- identifying macro and micro policy initiatives needed to implement such a program; and
- focusing on the institutional changes that will be needed to make the program fully operational.

3. The paper is divided into four sections. The first part is concerned with providing the main features of Pakistan's demographic dilemma and its relevance to a strategy for insuring basic needs. This section also identifies a number of scenarios of development - those that could have been followed in the past and those that could be pursued in the future - with different implications for the country's present and future economic well-being. The second section identifies the main areas of attention in

a basic needs oriented strategy and details the policy actions that need to be adopted in each case. Since the country appears to be very close to solving the problem of nutrition, special focus needs to be given to health and education. The third section seeks to incorporate the elements of a basic needs strategy identified in Section II into a macro-economic framework. The more important implications of introducing this objective into development policy are also worked out. The fourth section identifies the institutional changes that need to be introduced in order to implement a strategy aimed at meeting basic needs and also provides an assessment of political and economic costs in not implementing it.

#### I. THE DEMOGRAPHIC SITUATION: A MANIFESTATION OF POVERTY?

4. Pakistan now has a population of 80 million as compared with 32 million in 1947, the year the country achieved independence. This more than doubling of population in a period of thirty years was made possible by a sharp decline in the rate of mortality and a persistently high rate of fertility. While the crude death rate declined from thirty per thousand in 1947 to 13 in 1977, crude birth rate has remained unchanged at between 40 and 47. With no change in the rate of fertility, the population is now growing at the rate of 3.1% per annum. Because of a large rate of increase in the last two decades, the population is very young. Some 48% is less than 15 years old. As these young people enter the child bearing age the rate of population growth, even without a change in the rate of fertility, could increase to 4.1% per annum over the next two or three decades.

5. In the thirty year period since independence, Pakistan's national product has increased at the rate of 4.1% per annum. However, because of the high population growth rate, per capita income has increased very slowly. By 1977 it had reached a level of \$170, only \$47 more than in 1947. The sharp increase in population has not only reduced the increase in per capita incomes, it has also strained the capacity of the social sectors to service the population. The number of children not attending schools has increased from 4.7 million in 1947 to 7.0 million in 1977; people with no access to clean drinking water increased from 24 million to 57 million, those with inadequate shelter from 22 million to 50 million and those with inadequate access to health services from 20 million to 50 million. One important consequence of this strain on social services is that the country has made little progress in bringing about a significant improvement in those aspects of life that have a strong influence on the decline in the rate of fertility. For instance, the rate of infant mortality remains high - at a level of 113 per thousand. This high level of wastage means that the families plan on a large number of births in order to achieve what they consider to be an optimum number of children. The rate of female literacy remains very low; in 1977, only 2% of the female population was literate as compared with 16% for males. The female participation in labor force was not much better: less than 10% as compared with over 40% for males. Accordingly, despite large investments by the government in various family planning programs, the rate of fertility remains high and unchanged.

6. Pursuit of a different set of economic policies would have probably resulted in a slower growth in the country's population, a higher level of per capita income, and social services under not as much strain. For instance, emphasis on rural development during the 'fifties and 'sixties might have produced a ten point reduction in the rate of fertility over a period of twenty five years. As the experience of the Indian province of the Punjab suggests, such a decline could have been achieved (Table 2 below). Had such a decline in the rate of fertility been achieved, Pakistan's present population would be of the order of 65 million instead of 80 million and its per capita income \$210 instead of \$170. In other words, a slower growth in population, combined with the same growth in national product would have resulted in an increase in per capita incomes almost double what was actually achieved - an increase of \$87 as against \$47 actually realized during the 1947-77 period.

Table 1

Pakistan's Population and Growth Rates

	<u>What they are</u> (Actual)			<u>and</u>	<u>What they could have been</u> (Possible)			
	<u>CBR</u> (per thousand)	<u>CDR</u> (per thousand)	<u>Rate of Growth</u> %		<u>Population</u>	<u>CBR</u> (per thousand)	<u>CDR</u> (per thousand)	<u>Rate of Growth</u> %
1951				33.8				33.8
1961	47	16	3.1	46.2	43	15	2.8	44.5
1972	49	14	3.5	69.3	37	13	2.4	57.8
1977	44	13	3.1	79.8	34	10	2.4	65.1

7. The hypothetical scenario referred to above (Table 1) would have had a considerable impact on social development. The nature of the impact can perhaps be best appreciated by a comparison of several "quality of life" indices for Pakistan and the Indian Punjab. The areas in Pakistan that are contiguous to Punjab State and account for the bulk of the country's population were at about the same stage of development in 1947. As can be seen from the data of Table 2 below, the Indian Punjab, in terms of social development, is now far ahead. In fact mortality and overall death rates are half those of Pakistan, while there are twice as many doctors available and double the proportion of children in primary school. Differences between Indian Punjab and Pakistan must be attributed to different patterns of development since per capita incomes are still extremely close.

Table 2

"Quality of Life" Comparisons Between Pakistan  
and the Indian Punjab

	<u>Pakistan</u>	<u>Indian Punjab</u>
Infant Mortality (per thousand )	113	48
Life Expectancy at Birth (years)		
Males	53	64
Females	52	59
Crude Birth Rate per thousand per annum	44	28
Crude Death Rate per thousand per annum	13	7
Doctors/1,000 of the population	0.20	0.45
Percentage of Children in Primary School	44	90
Classes I-V - Males	64	96
Females	25	83
Rate of Literacy (%)	16	34

8. It is clear that in order to alleviate poverty, Pakistan must adopt policies that would reduce the presently very high rate of population growth. With no changes in the present rates of fertility and mortality, the country could have a population of 190 million by the end of the century. Without a decline in the rate of fertility, the gross national product will have to increase at the rate of over 4% per annum to prevent a decline in per capita incomes. This is equal to the rate of growth during the last thirty years. However, it appears that even at this rate of growth in the national product there would be an increase in the number of absolute poor. With a population of 190 million, Pakistan will have:

- 40 million children of primary school age. Even to maintain the presently low level of enrollment rate, it will require facilities for an additional 11 million school children and to provide these another 155,000 primary school and another 650,000 primary school teachers would be required;
- to provide another 40,000 doctors to maintain the presently low standard of health care; and
- to produce an additional 25 million tons of foodgrains to provide the minimum daily requirements of food.



In order to provide for the presently low level educational and health facilities, public sector outlays could increase to 25% of the total which is five times the present outlay provision for these sectors. Such a large expenditure in these sectors would naturally starve other parts of the economy of resources and would have a very adverse effect on the economy's rate of growth. It seems, therefore, that Pakistan cannot sustain a population of 190 million in the year 2000 without a substantial increase in the number of poor.

9. Table 3 below provides four different demographic scenarios for Pakistan. The first one can be ruled out on the grounds given above; the second, based as it is on a sudden drop in the rate of fertility to the replacement level, is equally implausible. Pakistan should strive towards the third option; in order to do this, it must evolve a package of policies aimed at a rapid social development of the population. Only by bringing about a sharp reduction in the rate of infant mortality, a substantial increase in general standards of health, and a significant improvement in the status of women can Pakistan expect to overcome its serious demographic problem. Without an improvement in the demographic situation, it would not be possible for the country to make a major economic advance.

Table 3  
Pakistan's Population Under Four Different Scenarios  
(millions)

<u>Scenarios</u>	<u>1977</u>	<u>1987</u>	<u>1997</u>	<u>2007</u>	<u>Per Annun Growth Rate</u> <u>(1977-2007)</u>
1. Constant Fertility	80	113	168	255	4.1
2. Moderate Fertility Decline	80	110	156	217	3.2
3. Sharp Fertility Decline	80	100	116	138	1.7
4. Replacement Fertility After 1977	80	87	101	115	1.2

10. In order to enact the third scenario, Pakistan will be required to implement an ambitious program of social development combined with an effective family planning service. Such a program, the social development components of which are described in Section II below, could reduce the crude birth rate to 28 in the next ten years and the rate of population growth to 1.7% per annum. Even with this reduction, Pakistan will have a population of 100 million by 1987 and 122 million by the end of the century.

II. A. A BASIC NEEDS PLAN FOR THE PUBLIC SECTOR, FY77-87

11. This section describes a basic needs program based on the demographic assumptions of the third scenario in Table 3 above. According to this, Pakistan will have a net addition of 20 million to its population in the ten year period between 1977 and 1987. The main objectives of the basic needs program developed here are to:

- fulfill the basic nutritional, health and sanitation, educational, shelter and clothing needs of the presently deprived population by 1987;
- increase the rate of growth in national wealth to 6.0% a rate well above the historical (1947-77) level; and
- reduce the dependence of the economy on foreign investment resources.

In achieving the first objective, the program will have to provide the needs not only of the additions to the population in the next decade, but also of the heavy backlog carried from the past. In the second objective, the economy will have to overcome the sluggishness that set in the past five years and for the third, allowance will have to be made for the heavy borrowing since 1973 and their impact on the balance of payments situation. Only the first of these three objectives will be defined in this section; the discussion of Section III will show that the remaining two will also be achieved.

Nutrition

12. Although Pakistan has a nutritional problem, it is not as serious as that of a number of other countries at the same stage of development. This is in part due to a relatively high rate of growth in agricultural output; whereas in the last decade agricultural production in South Asia increased at an average rate of just over 3% per annum, the rate of increase in Pakistan was over 5%. Analysis of food balance sheets indicate that the average level of calorie consumption is presently 2,370 k cals per capita, slightly more than the minimum established for health and full productivity. However, because of the inequality of income distribution, the poor suffer from some caloric deficiencies. It has been estimated that some 19 million people consume less than the 85% of the recommended dietary allowance for calorie. This is equivalent to 700,000 tons of foodgrains. In other words, a six percent increase in Pakistan's present foodgrains output could solve the nutritional problem if all of it could be directed towards the underprivileged groups.

13. The bulk of the population not able to meet their nutritional needs are in the rural areas and the bulk of them obtain their incomes either cultivating small areas or as landless workers. A small farmer oriented program, aimed at increasing the output of over 1.6 million farm households, accounting for a population of over 11 million, would make a substantial contribution to increasing the nutritional levels of the less advantaged segments of the rural population. At present, output of foodgrains per acre obtained by the small cultivators is about 40% less that of the middle sized farmers (Table 4 below). Most of this productivity differential has developed in the last one decade when the larger farmers obtained access to the new, high yielding seed technology. This technology could also be made available to the small farmers if they could be provided with (a) adequate extension services, (b) credit for the purchase of seeds and fertilizers and (c) access to irrigation water. If the productivity of these cultivators could be brought to the level already attained by the middle sized farmers, the output of foodgrain could increase by almost 550,000 tons. This implies a rate of increase in productivity of less than 2% per annum. A small farmer strategy, therefore, would have a profound impact on closing the present nutritional gap of 700,000 tons.

Table 4

Productivity Differential Between Farms of Different Sizes

	<u>No. of Farms</u> (millions)		<u>Area Under Foodgrains</u> (million acres)		<u>Productivity</u> <u>Foodgrains</u>	
	<u>No.</u>	<u>%</u>	<u>Area</u>	<u>%</u>	<u>Tons/Acre</u>	<u>Output</u> (millions)
Small (0-7.5)	1.62	43	3.6	15	0.40	1.44
Middle (7.5-50.0)	2.03	54	15.8	66	0.55	8.81
Large (over 50)	0.11	3	4.6	19	0.38	1.75
	<u>3.76</u>	<u>100</u>	<u>24.0</u>	<u>100</u>	<u>500</u>	<u>12.0</u>

14. The small size of the small farms - average size is only 2.22 acres - may be an inhibiting factor in obtaining access to new inputs and extension services provided by the government. Therefore, in order to reach these farms it may be necessary for them to consolidate their holdings into larger units. The previous attempts at consolidation did not succeed since they did not offer any incentives to the farmers. A program based on introducing the high-yielding seed technology to the farmers along with provision of credit and required inputs may provide the incentives the farmers need to organize themselves into cooperative units.

15. Of the disadvantaged, the largest as well as the most vulnerable are children. According to a micro-nutrient survey, 56% of the children surveyed under five years of age showed symptom of undernourishment. This means that some seven million children under the age of five may be undernourished in Pakistan. In other words, children under five account for nearly two-fifths of the undernourished population.

16. While increasing domestic output of foodgrains is not an important element in solving the country's nutritional problem - in fact, by 1987 Pakistan could have an exportable surplus of one million tons after satisfying the nutritional requirements of a population of 100 million even if its output did not increase by more than 4.5% per annum - what are important are policies designed to increase the incomes of the disadvantaged groups and the recognition by parents that children must be provided with an adequate diet.

17. The poor spend 60% of their incomes on food; it can be assumed then that increasing incomes of the poor will result in a compounding increase in food demand. If private consumption expands at a rate of 5% per annum - not an implausible target (see below) and if population grows at 2% (which it would if poverty alleviation became the central objective of development) then a 3% per annum growth of income can be expected. If the poor share equally with the rich in this income growth, their per capita food consumption in the target group can be expected to grow at the same rate. This would imply that in the next seven years, food consumption in the target groups would increase by over 20%, enough to completely eliminate calorie deficiencies in the population.

18. The increase in the output of food and increase in and better distribution of incomes would still not ensure that the problem of malnourishment would be eliminated. In so far as children are concerned, the problem is sociological; the considerably higher rate of mortality amongst female children suggests that this by far is the most disadvantaged group in the country. At present, some five million of them are undernourished.

Education

19. Although Pakistan made an impressive amount of investment in the educational system in the past one decade, the amount of sources committed and the qualitative changes introduced were not sufficient to provide primary education to all primary age school children. Despite the increase in resource commitments in recent years, the expenditures on education remain at a very low level. For primary education, Pakistan spends a third of the average for all developing countries (Table 5 below). It is only for higher education that the level of expenditure in Pakistan are comparable to those in other developing countries.

Table 5

Education Expenditures as a Percentage  
of GNP (Mid-Seventies)

	<u>Pakistan</u>	<u>All LDCs</u>
Total Education	1.7	4.4
- Primary	0.6	1.7
- Secondary	0.5	1.8
- Higher	0.6	0.7

20. These numbers suggest not only a low level of commitment to education but also a misallocation of whatever resources that are being made available for this sector. Although the 1972 census reports that one-quarter of the adult population as being literate; in fact, according to surveys, only one-sixth can read and understand newspapers. Consequently, as the data of Table 6 shows, Pakistan has less than one-half of the primary school going children in classes. Amongst girls, the proportion is only one-quarter.

21. In order to achieve universal primary-education by 1987, Pakistan must provide for facilities for an additional 9.4 million children. Of this addition, 5.6 million or almost 60% must be for girls. If this target is to be achieved, the enrollment of girls must increase at a rate nearly three times as much as for boys (Table 6 below).

Table 6  
Primary Education Targets for 1987

	1977 <u>(million)</u>	1987 <u>(million)</u>	Increase	
			<u>Absolute (million)</u>	<u>% P.G.</u>
Population	80.0	100.0	20	2.3
Children of Primary School Going Age	12.0	15.0	3	2.3
(Males)	(6.5)	(8.0)	(1.5)	2.1
(Females)	(5.5)	(7.0)	(1.5)	(2.4)
Children Attending School	5.6	15.0	9.4	(10.4)
(Males)	(4.2)	(8.0)	(3.8)	(6.6)
(Females)	(1.4)	(7.0)	(5.6)	(17.5)
Proportion of Children in School	47%	100%		
(Males)	(65%)	(100%)		
(Females)	(25%)	(100%)		

22. There is no serious resource constraint for meeting this target. Capital cost for primary school education is of the order of Rs. 100 per child; recurrent cost is estimated to be almost Rs. 150. By comparison, university education costs Rs. 10,000 in development expenditures and Rs. 4,500 in recurring costs per year. To provide universal primary education by 1987 would therefore cost Rs. 940 million over a period of ten years. This level of average capital outlay could be achieved by starting with Rs. 400 million in FY78 and going up to Rs. 1,400 million in 1987. In addition, by 1987 the government will need to spend Rs. 200 million per annum to increase the primary teacher stock by 200,000. Combined

with recurrent expenditures, this would mean that Pakistan, by 1987, would be committing just over 2% of its GNP for primary education which, given the numbers cited for other countries in Table 4 above, does not imply an excessive concentration. The burden on the economy would be lower if some resources could be diverted from higher into primary education. This could be done by reducing the expansion in higher education, by changing the recipients of higher education a part of the cost being incurred by the society and by involving the local communities in programs aimed at building new schools and maintaining those already in operation.

23. Given the distribution of income in Pakistan, a vast majority of the children out of school belong to the poor families. For these families, the rate of return from education is small -- according to one study the rate of return is as low as 6%, reflecting as it does both the high opportunity costs of keeping children in school and the small impact primary schooling has on increasing productivity -- and explains in part why they keep these children out of school. Also, among these out-of-school children, a vast majority are girls. Therefore, in order to achieve the target of universal primary education by 1987, the government should direct its activities at the poor families, particularly female children from those families. Private sector can be relied upon to contribute to primary education in urban areas and in the relatively more affluent rural areas. This would mean reversing the 1973 decision which led to the nationalization of all schools.

24. The low rates of return found for primary education indicate the considerable problems that must be faced in improving the quality of education. Surveys indicate, for instance, that after five years of primary school, many children have not acquired even sufficient skills to read a newspaper. Schools often do not have sufficient books or other materials for the numbers enrolled. There are inadequate funds to repair buildings, resulting in crowding two classes and two teachers into the same room. Because of inadequate supervision, teachers themselves are often absent. Much teaching is based on rote memorization, with emphasis on passing standard examinations, rather than on thinking and learning. While steps have been taken to introduce more relevant material on agriculture and technical subjects, progress has been slow. Local communities, which are often concerned over the inadequacies of their local schools, are not involved in the maintenance, supervision or curricula planning of these schools. As a result of these problems, many students drop out, which also explains why enrollment levels are so low. Fewer than 40% of those who enroll in first grade finish primary school and only 15% finish tenth grade. To adequately meet basic needs in primary education, therefore, requires not only the construction of more facilities, but also overcoming some of these more difficult institutional and administrative problems.

## Health

25. As in the case of education, various indices show that the state of health of the people of Pakistan is not as good as that of other countries at the same level of development. For instance, the rate of mortality is 13 per thousand as compared with 11 for India; the rate of child mortality is 113 as compared with 105 for the rest of South Asia and life expectancy is 55 years as compared with 57 years for all LDCs with per capita income below \$200. This relative backwardness is due in part to the neglect of the health sector in the government's development plans - in 1977 Pakistan spent only 1% of its GNP on health as compared with 2.5% for all LDCs - in part due to the concentration of committed resources in the urban sector - the 26% of the population in urban areas now have at their disposal 81% of the hospital beds and 46% of the health sub-centers - and in part due to the export of doctors to the USA, UK and the Middle East - Pakistan had 13,000 doctors in 1970, trained an additional 7,000 in seven years, but ended up with a stock of only 11,000 in 1977. A basic needs program in health, therefore, must reverse these trends by increasing the share of health in total expenditures, be delivering more health services to the rural areas, and by investing in kinds of health technicians that are most relevant to Pakistan's needs.

26. To reach these goals during the next ten years will require:
- the establishment of 1,000 additional rural health centers with 10 beds each and staffed by 2 doctors and 9 auxiliaries;
  - the establishment of an additional 6,000 basic health units, serving population centers of 10,000;
  - adding 30,000 hospital beds at the tehsil or district level;
  - training 35,000 paramedics/auxiliaries;
  - training 15,000 doctors and 6,000 dentists and nurses;
  - training 55,000 community health workers.

27. The development costs of this plan would be about Rs. 7.0 billion including training facilities. Recurrent expenditures can be expected to increase by about 15% per year, with the result that the per capita expenditure on health services would double in ten years. These seem to be realistic targets considering that the expenditures on health (in real terms) have doubled in the past seven years; another doubling in the next ten years will still keep it below the average for all LDCs.



28. In order to become truly effective, the health system will have to achieve greater integration with other programs, namely the family planning program, immunization programs, maternal/child health clinics and dispensaries. The curriculum for training of doctors at medical schools needs to be revised to include more emphasis on preventive measures rather than strictly curative medicine. On the preventative side, substantial progress has already been made in the complete elimination of smallpox and nearly complete elimination of malaria. Approximately Rs. 3.0 billion will be required over the next ten years for the maintenance of these preventative programs, and extension of immunizations against polio, diphtheria and tuberculosis. Preventative programs in these areas are less expensive options to more costly curative programs.

#### Water Supply and Sanitation

29. The major causes of death in Pakistan today are the diseases that spread from impure water or improper sanitation (typhoid, cholera, gastro-intestinal disorders). A 1975 study estimated that 40% of all deaths are due to waterborne diseases. At the present time, however, only 28% of the population has access to safe water while only 8% are served by an effective sewerage system. Most of the rural people draw water from privately installed handpumps or from open streams, canals and ponds: a good number of these sources of water are bacteriologically polluted. Waste disposal facilities are generally poor in the cities and non-existent in towns and villages.

30. To overcome these deficiencies would require an enormous amount of investment as well as organizational effort. For the urban and rural poor, clean water can be provided through standposts and handpumps respectively. With unit costs of approximately Rs. 30 per capita for both the urban and rural population, this would mean an outlay of about Rs. 2.3 billion over a period of ten years. Sanitation facilities are somewhat more difficult to cost out. For rural areas, septic tanks, latrines and other low cost alternatives would be a more realistic alternative to modern high-cost sewerage systems. At an estimate cost of Rs. 120 per person in urban areas and Rs. 40 per person in rural areas, basic sanitation can be introduced at a cost of Rs. 6.2 billion. The total cost for meeting basic needs in water and sanitation would then be about Rs. 8.5 billion.

31. While the targets for basic needs in water and sewerage may be financially feasible, the larger issue is the administrative capacity of the sector to handle the increased program of development. The present situation finds the responsibility for water and sewer development fragmented among the provincial governments, with the Federal Government having only a small voice in overall planning and coordination. Local governments and municipalities are responsible for running systems

and collecting revenues once they have been constructed by the Provincial Governments. Urban water tariffs are far below even the operating costs of these services, with a result that often high income families are being subsidized. Tariffs range generally from Rs. 3.0 to 6.0 per month for unmetered domestic connections or less than half of the cost of providing the services and Rs. 1.0 to 2.0 per 1,000 gallons for metered domestic connection. Households without a water connection who buy water from vendors spend amounts ranging from Rs. 25-35 per month. The cost of providing clean water from standpipes in urban locations could be recovered by a nominal tax on property, and still result in a substantial improvement in the welfare of the poor.

### Housing

32. Little information is available concerning housing deficiencies in Pakistan, although it is apparent from casual observation that most of the population have some form of rudimentary housing and that the greater deficiencies are in the areas of sanitation and water supply. Improving the supply of housing available would be a very expensive and administratively difficult task if done solely through the public sector. Since the poor spend a significant (14%) proportion of their income on housing, most housing needs are more efficiently met by increasing incomes of the poor (see above). Additional work in the public sector can be undertaken, however, to provide plots (sites and services) for low income housing development. It is probable that of Pakistan's 16 million families, about 20% are living with serious housing deficiencies. Thus, there would be a need to develop about 3.2 million additional plots. By comparison, in FY77, the Annual Plan called for the development of 100,000 plots, which was double the level of the previous year, at a cost of about Rs. 500 per plot (land acquisition costs excluded). To develop 3 million plots by 1988 would mean increasing the current level of development by a factor of three (roughly 320,000 per year). This would entail a cost of about Rs. 1.6 billion over the life of the Plan, assuming that the institutional problems of administering such a large program could be overcome.

### The Total Basic Needs Investment Plan

33. Table 7 below provides estimates of basic needs investments in public sector that need to be made in the next ten years. These estimates suggest that:

- the development costs of meeting basic needs in general are not excessive; probably not more than 22 billion rupees over ten years (excluding development costs in agriculture which are assumed to take place whether a basic needs strategy for nutrition is pursued or not). Such a program of basic needs could be implemented by starting with an outlay of Rs. 1.3

billion in 1978 and increasing it at the rate of about 9.0% per annum to reach Rs. 3.1 billion by 1987. At this level of expenditure, the basic needs will claim about 10% of public sector outlays. This proportion is about twice that achieved during the Third Plan period (1965-70) but of the order proposed in the draft Fifth Plan for the 1977-83 period. However, the plan being proposed here implies somewhat less commitment of resources to the health sector but considerably more outlay in the sector of education;

- the major constraint on achieving full basic needs for the entire population is the inadequate level of institutional arrangements for handling social sector services, particularly in health and education; and the political and administrative obstacles to shifting the distribution of public services from urban elites to the rural and urban poor.

Table 7

Public Sector Development Costs for Basic Needs, FY78-87

(billions of rupees)

Education	Rs. 1.2
Health	
Rural Health	7.0
Preventive Health	3.0
Water	2.3
Sewer/Sanitation	6.2
Housing	1.6
Others	<u>0.7</u>
Total	Rs. <u>22.0</u>

Note: Rs. 9.9 = U.S. \$1.00

B. GOVERNMENT POLICY TO THE PRIVATE SECTORS MEETING  
BASIC NEEDS INDIRECTLY

34. In Pakistan certain basic needs can only be met by increasing outlays in the public sector. These needs and the required expenditure in the public sector were described above. For a number of other needs - nutrition, clothing, shelter - the consumer, left to function in the market, would perform more efficiently than the public sector. At the present income levels prevailing in Pakistan, particularly among the poorer people raising incomes is a very efficient way of meeting basic needs. As seen in the Table below, low income households spend 85% of their income on such basic needs as food (60%), clothing (12%) and housing (14%). Miscellaneous goods and services, which account for 15% of total expenditures, include expenditures on health care not delivered by the public sector, transportation, laundry services and other items, which could be considered to be "basic needs" in the broader sense. Hence, raising incomes of low income groups can be considered to be a fairly effective way of meeting basic needs in Pakistan.

Table 8

Percentage Distribution of Monthly Consumption  
Expenditures Per Household 1972

	<u>All</u>	<u>Rural</u>	<u>Urban</u>	<u>All low Income</u>
Food and Drink	5.0	57.7	45.3	59.6
Clothing	10.6	11.0	9.7	11.6
Housing	13.9	12.0	18.2	14.2
Miscellaneous (including medical care)	20.5	19.5	22.8	14.6
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

35. One of the keys to raising incomes and productivity among the poor is the need to increase employment opportunities, and to spread investment widely through the labor force. It is in this area that the Government's investment program will need a major reorientation. In Pakistan, large scale manufacturing, although it accounts for 85% of the value added in all manufacturing, accounts for only 20% of the employment. Employment in small scale industries has, in fact, declined since 1970 as a result of labor displacement, the drift of rural artisans to urban employment centers, and the emphasis the government has placed on the development of large scale industries. Not only do investments in large scale industries with their high capital output ratios increase the productivity and presumably incomes of a few, but they may actually displace as many employees from the small scale sector as they add to the large scale. Between 1970 and 1973, for instance, total large scale employment increased by 22%, but this was offset by a decline in small scale employment such that total manufacturing employment remained unchanged while declining as a share of the total. Agriculture and services absorbed the bulk of the increase in the labor force.

36. Small scale industries are clearly more efficient users of capital than the large scale units. Surveys show that small scale units have capital-output ratios that are half of the level of those in the large scale sector, while they employ three times more workers for every unit of capital invested. Capital productivity and employment effects are even greater in the smaller household units which are excluded from these surveys. Small scale manufacturers tend to have strong backward linkages to domestic agriculture and are least dependent upon imports of raw materials and equipment. There are indications that they are able to generate comparable levels of profits in relation to capital invested, despite fewer subsidies, greater competition and being faced with higher interest rates. Although the small scale industrial sector has been very important in providing the people with their consumer needs has also greatly contributed to increasing the country's exports, its growth in recent years has not been as high as the large scale manufacturing sector. This was in part due to its inability to compete on an equal footing with the relatively few, privileged large firms receiving special treatment in the allocation of import licenses at unrealistic exchange rates. While some of these distortions have been corrected, small firms still find great difficulty in obtaining sufficient credit and adequate technical advice.

37. If the institutional obstacles to increasing investment in small scale industries can be overcome, the potential impact on employment and income for the poor is considerable. The reason for this derives from the high capital/labor ratio prevailing in large scale industry, particularly in the public sector. The Karachi Steel Mill, for instance, will require

one million rupees (\$100,000) of investment for every job it creates. Investments in the private sector generally take about Rs. 200,000, while those in the small scale sector require only Rs. 5,000. The draft Fifth Plan, extrapolated to FY87, allocates Rs. 77 billion to manufacturing, of which all but Rs. 5 billion goes to the large scale sector. Consequently, the employment created is only about 1.2 million jobs in the period of ten years, over the level of 2.8 million currently employed in manufacturing. While over 90% of the investment is going to the large scale sector, it accounts for only about 15% of incremental employment. The BN Plan proposed here, however, suggests a reduction in large scale public sector investment in favor of a reallocation both in the private large scale and the private small scale sectors. By tripling the investment in small scale industries, additional employment of 2.0 million could be created. Total incremental employment could absorb one-third of the increase in the labor force, compared to only one-ninth in the Original Plan.

Table 9

Alternative Industrial Investment and  
Employment Patters  
FY78-87

	Employment 1977	Investment FY78-87 (Rs. bil.)	K/L (Rs/worker)	Increase in Empl. FY77-87	Total Employment FY87
<u>Original Plan</u>					
Large scale: public	100	57	500,000	115	215
private	420	15	200,000	75	495
Small scale	<u>2,250</u>	<u>5</u>	5,000	<u>1,000</u>	<u>3,250</u>
Total	<u>2,770</u>	<u>17</u>		<u>1,190</u>	<u>3,960</u>
<u>BN Plan</u>					
Large scale: public	100	40	500,000	80	180
private	420	20	200,000	100	520
Small scale	<u>2,250</u>	<u>15</u>	5,000	<u>3,000</u>	<u>5,250</u>
Total	<u>2,770</u>	<u>75</u>		<u>3,180</u>	<u>5,950</u>

38. Could this be accomplished? First of all, it appears that the Original Plan was conservative in its investment assumptions for the small scale sector, since its proposed average of Rs. 500 million per year is equal to the level attained in FY76, and would mean no real increase in ten years. While the Rs. 1.5 billion figure would imply a tripling, this could be phased over the ten year period. For instance, the Rs. 1.5 billion cumulative total could be achieved by maintaining a 20% growth rate in small scale investment. But would it be effective? In the recent past, investment in small scale industries has not produced an overall increase in employment, largely because while small factories have expanded, output and employment in household enterprises has declined. Decreasing investment in large scale industries, however, will lessen the competition faced by rural artisans from large scale products, and hopefully arrest their migration to urban centers.

39. Past drafts of the Fifth Five Year Plan, while giving much emphasis to the need to create employment opportunities, have never detailed how they would be created, and assumed that the bulk of the labor force would continue to be absorbed into agriculture, services and small scale industry. At the same time, a number of policies have been continued which work against employment creation. Tax and tariff policies for instance, together with an over-valued exchange rate, tend to reduce the real cost of capital to the industrial sector. Many of these policies have been instituted with the idea of promoting investment as a means to promote growth, without any consideration to the objective of promoting employment. Investment incentives, by their very nature, tend to make capital cheaper. At the same time, the Government, since 1969, has instituted a series of labor reforms which increased real wages by 28% between FY70 and FY75. These reforms included increases in mandated minimum wages, increased profit sharing, increases in pensions, leave and other fringe benefits, and greater powers given to labor unions to organize workers. At the same time, wages in other sectors were stagnant or declined slightly. As a result, industrial wages in 1975 were 40% higher than their equilibrium level, while the market price of capital was about 20% less. These distortions in factor prices can be reversed by Government actions, once the objective of increasing employment is recognized to be as important as increasing output.

40. Shifting relative factor prices toward labor, should result in greater investment and growth in the more labor intensive manufacturing sectors and the use of more appropriate, capital saving, technology within sectors. The increase in incentives for industries in labor intensive sub-sectors should also mean the development of products which have the greatest export potential. The rapid growth of manufactured exports from the small scale industrial sector is an indication that export development along the lines indicated by relative factor endowments is an efficient way to proceed. Pakistan's experience with capital intensive import

substituting industries, whether in the private or public sector, is that they generally consume a larger amount of domestic resources to per unit of foreign exchange saved, in addition to their low employment potential. Consequently, a strategy that emphasizes labor intensive production techniques, besides increasing employment opportunities, should result in a more efficient use of scarce capital resources.

41. In advocating a program of employment oriented growth the Government could undertake to:

- increase tariffs on imported capital goods (now about 10%) to at least the average level of other commodities (about 25%);
- remove tax incentives for investment and reshape the tax system to offer incentives for employment creation;
- reduce the public sector investment program in heavy industry, and shift it toward manufacturing activities with export potential such as shoes, electronics, food products and garments;
- hold down further increases in minimum wages and benefits for industrial workers so that in real terms wages decline or at least do not increase; and
- develop more imaginative programs to assist small scale industrial employers with credit, marketing and other problems.



### III. THE MACRO-ECONOMICS OF THE BASIC NEEDS STRATEGY

42. Ignoring for the present the institutional problems, the previous section has indicated that the total costs of meeting basic needs over ten years might be as low as Rs. 22 billion (ignoring the development costs in agriculture which are assumed to occur whether or not a basic needs approach is taken up). The question is how does this fit into the overall macro-economic growth pattern of the future, and the likely level of available resources for development.

43. Besides meeting basic needs through accelerated social sector programs and increased private consumption, Pakistan must also face some other serious problems. Since 1970, the overall growth of output has averaged 3.6%, barely fast enough to keep pace with the growth of population. Growth rates in manufacturing and agriculture were even lower (1.7 and 2.2% per annum, respectively). <sup>1/</sup> At the same time, the Government has made a tremendous effort to increase the rate of investment to 19% of GDP in FY77, compared with 11.5% in FY73. Some of this increase in investment was necessary to restore infrastructure and social sector programs which had been reduced in prior years. A large portion, however, represented new initiatives in public sector industries, particularly steel, fertilizers, chemicals and heavy machinery, plus rapid expansion in transport and power sectors, much of which was unnecessary and/or uneconomic.

44. At the time the investment rate was being increased, however, the rate of savings was falling, reaching at one point a low of 4% of GDP. Even in 1977, the rate of domestic saving is about 9% of GDP, so that almost half of the investment program is being financed by foreign capital.

45. The availability of concessionary capital from abroad has been a major factor explaining why Pakistan has not had to either reduce its investment program or increase domestic saving until now. In recent years, the decline in OPEC aid has been offset, somewhat, by significant increases in workers' remittances. With debt service already high because of the borrowings in prior years it seems clear that net capital inflows at present levels will have to decline. This implies a higher rate of domestic saving, or a lower investment rate, or both. If per capita consumption and domestic saving are both to be increased, then a rapid growth of output is required. This is the strategy of the current Plan, which calls for a 7.6% annual growth rate, including 6.2% in agriculture and 13% in large scale manufacturing. Such targets are so clearly out of line with past performance and likely possible future growth, that they do not form a meaningful framework for discussing resource mobilization and expenditure problems. At the most, an overall growth rate of no more than 6.0% would be possible, barring unforeseen events such as extremely adverse weather, etc. This would be consistent with a 4.5% growth rate in agriculture and a 7.0% growth rate for manufacturing, and would be very similar to the record of the 1960's. During the period FY65-70, for instance, agriculture grew at a rate of 6.3% per year with an 8.7% annual growth rate in industry, or an overall average of 6.7%.

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<sup>1/</sup> Growth rates calculated here are based on least squares trend estimates for the FY70-77 period, using constant price value added data.

46. It is difficult to judge all of the ramifications of a shift to a basic needs (BN) strategy. The movement towards a less capital intensive strategy implies lower investment requirements of any given growth target. On the other hand, the basic needs approach might raise consumption by increasing incomes for lower income groups who have higher marginal propensities to consume, and thus lower overall saving. In order to examine the issue of savings-capital efficiency tradeoffs, assumptions concerning relevant macro-economic variables have been combined in a simple growth model. In this model, the growth rate of GDP is determined by the level of investment and the incremental capital-output ratio. The level of investment is defined as the sum of saving and foreign inflows, which for the purposes of the model are assumed to decline over time (from Rs. 15.5 billion at present to Rs. 12.0 billion by 1987). A marginal savings rate (MSR) determines saving from incremental GDP. For the base case, which assumes an investment pattern similar to that of the draft Fifth Plan, the ICOR is set to 3.5 and the MSR to .15. Under these conditions, the economy grows at a 5.1% average rate, considerably lower than the 7.6% of the draft Fifth Plan. For the "BN-employment" strategy, the ICOR is assumed to fall to 2.7, reflecting less capital intensive investments in industry and agriculture. At the same time, however, emphasis on employment income growth for low income groups is assumed to lower the MSR to .10. Despite the lower savings rate, the GDP growth rate under this strategy reaches 6.0% for the decade. <sup>1/</sup>

47. Rather than being detrimental to growth prospects, the conclusion that emerges from this simple model is that a BN strategy could increase the rate of growth. This answer depends, however, on the way in which basic needs are met. If the structure of production is not changed, and basic needs are met through income transfers, then the ICOR would not fall, although the savings rate would. Under this "BN-transfer" strategy, the model suggests that the overall growth rate of GDP could fall to 4.8%.

Table 10  
Alternative Growth Scenarios

<u>Scenario</u>	<u>MSR</u>	<u>ICOR</u>	<u>Growth Rate of:</u>		
			<u>GDP</u>	<u>Per Capita Consumption</u>	<u>Population</u>
Original (Plan)	.15	3.5	5.1	.7	4.1
BN-Employment	.10	2.7	6.0	3.5	2.3
BN-Transfer	.10	3.5	4.8	2.5	2.3

<sup>1/</sup> This rather unexpected result (higher growth under BN) is a product, to a certain degree, of the structure of the model. In the long run, in fact, the results could be reversed (see Annex I for a more complete discussion of this model).

In either case, however, the BN approach produces a more rapid rise in per capita consumption since it materially lowers the population growth rate. Whether the results would be as dramatic as indicated here is somewhat unclear, since the relationship between BN and population growth is a very uncertain one. In addition, the higher growth rate of population could itself help accelerate output by augmenting aggregate demand. Another issue omitted here is the factor intensity of the BN goods and services. If they are not intensive in unskilled labor, the BN strategy might be counterproductive since the real wages of the poor could fall. Also ignored is the possible impact on the balance of payments of rising incomes for the low income groups. This might reduce the available surplus of foodgrains for export, while also reducing the demand for expensive and imported consumer durables.

### Investment Plan

48. In the BN strategy, the overall investment rate is assumed to fall from 19% to 14% of GDP by 1987. To attain the objective of meeting all basic needs by 1987 requires, as outlined above, public sector investment of about Rs. 22 billion during the 1978-87 period. With approximately Rs. .7 billion being invested in Basic Needs at present, an indicative investment plan for basic needs calls for a doubling of this rate to Rs. 1.3 billion for FY78, and a gradual rise to Rs. 3.1 billion by FY87. At this rate, BN investment would equal about 1% of GDP, or about 7% of total investment over the period. <sup>1/</sup> While these figures clearly represent only orders of magnitude, they indicate that meeting basic needs does not require a large proportion of total resources, and does not place an impossible burden on the economy. Neither does it require a large increase in government employment or bureaucratic controls. Likewise, it implies reduced rather than increased price and market distortions.

Table 11

Macro-Economic Framework, BN Strategy  
(Rs. millions, 1977 prices)

	<u>1977</u>	<u>1987</u>	<u>Growth Rate</u> <u>1977-87</u>	<u>Percent of GDP</u>	
				<u>1977</u>	<u>1987</u>
Gross Domestic Product	144.7	257.8	6.0	100.0	100.0
Private Consumption	117.8	206.8	5.8	81.4	80.2
Government Consumption	15.0	26.9	6.0	10.4	10.4
Total Consumption	132.8	233.7	5.8	91.8	90.7
Fixed Investment	27.2	34.0	2.3	18.8	13.2
Changes in Stocks	1.0	1.0	-	.7	.4
Total Investment	28.2	36.1	2.5	19.5	14.0
Exports	13.9	31.5	8.5	9.6	12.2
Imports	29.4	43.5	4.0	20.3	16.9
Resource Gap	15.5	12.0	-	10.7	4.7
Domestic Saving	12.7	24.1	-	8.8	9.3

<sup>1/</sup> Or about 10% of public sector investment. In addition, a substantial amount of investment, particularly in housing, would be undertaken by the private sector. This private sector BN investment has not been included in the Rs. 22 billion.

Table 12  
Investment Plan FY78-87  
(Rs. billions)

Fiscal Year	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	Cumulative Total FY78-87	% of Total
GDP	144.7	154.6	165.1	175.8	186.8	198.0	209.4	221.0	232.9	245.1	257.8	2,046.5	100.0
I-NBN	26.5	27.4	27.8	28.2	28.6	29.0	29.4	29.9	30.9	31.9	33.0	296.1	14.4
I-BN	.7	1.3	1.5	1.7	1.9	2.1	2.3	2.5	2.7	2.9	3.1	22.0	1.1
I-Total	27.2	28.7	29.3	29.9	30.5	31.1	31.7	32.4	33.6	34.8	36.1	318.1	15.5
I/GDP	18.8	16.6	17.7	17.0	16.3	15.7	15.1	14.7	14.4	14.2	14.0		

I-NBN = Investment - nonbasic needs  
I-BN = Investment - basic needs

49. In contrast, the draft Fifth Plan calls for a total investment of Rs. 225 billion, of which Rs. 163 billion would be in the public sector for the six years FY78-83. Extrapolating for the ten year period this would mean total investment of Rs. 375 billion, compared to the estimate made in this paper of Rs. 318 billion. The need to reduce the overall investment program by 15% arises from the more conservative estimate of likely available resources. The BN strategy will also require a certain amount of reorientation of the public sector program, particularly in increasing the shares of the social sectors, while reducing the allocations for industry and infrastructure. Even within the social sectors, the BN strategy implies certain important reallocations, such as a reduction of expenditures on higher education and an increase in primary education. Likewise, in the infrastructure area, greater attention can be directed at rural roads, village electrification and similar projects which have a large number of beneficiaries among the lower income groups. In the past, the commitment to capital intensive projects in industry and infrastructure has often pre-empted funds for the social sectors. Unless the investment program is adjusted early in the Plan period, it will be impossible to meet the allocations for Basic Needs.

Table 13  
Public Sector Investment, FY78-87  
(Rs. billion)

	<u>Extrapolated Fifth Plan</u>		<u>BN Strategy</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Agriculture-related</u>	<u>52.5</u>	<u>19.3</u>	<u>52.0</u>	<u>22.5</u>
Agriculture	20.8	7.7	22.0	9.5
Water	31.7	11.6	30.0	13.0
<u>Heavy Industry</u>	<u>167.7</u>	<u>61.7</u>	<u>119.0</u>	<u>51.5</u>
Manufacturing	56.7	20.9	30.0	13.0
Transport & Communication	51.5	18.9	40.0	17.3
Fuel and Power	54.5	20.1	45.0	19.5
Minerals	5.0	1.8	4.0	1.7
<u>Social Sectors</u>	<u>51.5</u>	<u>19.0</u>	<u>60.0</u>	<u>26.0</u>
Physical Planning	14.8	5.5	20.0	8.7
Education	17.2	6.3	18.0	7.8
Health	16.0	5.7	20.0	8.7
Social Services & Others	<u>3.5</u>	<u>1.3</u>	<u>2.0</u>	<u>.8</u>
Total	<u>271.7</u>	<u>100.0</u>	<u>231.0</u>	<u>100.0</u>

50. The indicative reallocations under the basic needs approach results in an increase in the share for social sectors from 19% under the original plan to 26%. The heavy industry sectors (manufacturing, transport, communications, power, fuel) are reduced from 60% to about 51%, while agriculture and water are increased slightly. To accomplish this realignment of the investment program, while also reducing the total, means major reductions or deferments. Some projects, such as those in steel, heavy equipment, chemicals, etc., can be eliminated altogether. <sup>1/</sup> In the case of the steel mill, this would mean stopping a project that has already begun. Some investments in power, transport and other infrastructure can be deferred by extracting

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<sup>1/</sup> A more complete description of these projects is contained in Annex II.

greater efficiencies from the existing capital stock, which is often underutilized. Several projects which are being built mostly to enhance national prestige, can easily be eliminated. These include the Indus Super Highway, the Islamabad Sports Complex, nuclear power plants and certain road investments in the Frontier and Baluchistan provinces. These two provinces, which contain only 20% of Pakistan's total population, contain some of the most severe forms of poverty. Special attention needs to be directed to these regions to find investments that make use of local resources, as well as to insure that social sector investments reach the rural poor.

#### IV. POLITICAL CONSTRAINTS AND INSTITUTIONAL CHANGES

51. The strategy outlined above, while entailing difficult choices, does not assume absence of all political constraints. The program suggested can be implemented without bringing about a radical political change: it does not call for a drastic land reform and a drastic reduction of land ceilings, or for elimination of absentee landlords. The implementation of the strategy is not even predicated on capturing the incomes of wealthier classes through heavy taxation, a total prohibition of luxury consumption and a complete neglect of the sectors providing goods and services not included in the basket of basic needs.

52. It is also useful to underscore that even the choices described as difficult in this paper can be implemented by an administration that understands that a number of projects in the pipeline are there not for political reasons. The Karachi Steel Mill, the Islamabad Sports Complex, the Indus Highway, the Nuclear Reprocessing Plant are examples of projects that were included in the development portfolio not to satisfy powerful pressure groups. They were the products of a system of whimsical economic management. As such, these projects have not generated a political dynamic that cannot be arrested. Therefore, the reallocation of resources outlined in the program presented above does not involve impossible political choices.

53. The main problem that will be encountered in implementing the strategy will be organizational: how should small farmers be organized to receive credit and inputs that they need to increase their productivity; how should the small-scale enterprises be accommodated in the industrial sector so that their input requirements are met and their output reaches the markets efficiently; and how should the social sectors be organized so that their benefits reach the intended target groups without being captured by the relatively more affluent and the relatively more powerful groups. Some of these organizational problems can be handled through a system of decentralized administration. Such a system should:

- provide participation in decision-making to people at all levels - villages, towns, cities, provinces and the nation;
- insure that the poor would receive the benefits intended to go to them; and
- to provide for a mechanism which would make possible the implementation of a development strategy in which a number of small projects would be executed in thousands of villages in all parts of the country.

54. The most efficient way for bringing about this institutional development is to create a system of local government which would be responsible for undertaking the development of education, health and sanitation facilities in villages, towns and cities. Such a system of local government existed in Pakistan during the 1960's. There is evidence that this system succeeded in generating both the resources for social sector development as well as involving people in the process of decision-making. A similar system, without the political overtones that lead to the demise of the old structure, should be evolved once again. The main features of this system should be:

- interlocking bodies at various levels. This implies a multi-tiered structure in which representative councils exist at the levels of villages, towns, districts and provinces;
- independent resource base for all local bodies. There is evidence that the people in Pakistan are prepared to pay for such services as drinking water, curative health and higher education if they have a role in maintaining them; and
- integration of local body programs into a national development framework. Such an integration would ensure that the federal and provincial governments would aid the social development efforts of the local bodies rather than work at cross purposes with them.

55. Under such a system local government would be responsible for the construction, improvement, and maintenance of 50,000 primary schools; training of 200,000 additional teachers; construction and maintenance of 7,500 health units in as many villages, towns and cities; selection for training of 10,000 auxiliary health workers to work in health units and provision of water and sanitation facilities in all villages and urban areas.

56. The local governments could also play an important role in providing credit and agricultural inputs to the small farming sector. At present, agricultural credit is being made available mainly to the farmers who produce for the market; to make resources available to the small farmers producing for subsistence may require a cooperative arrangement under the supervision of local bodies. A successful example of such a link is to be found in the Comilla experiment of the 1960's and could be adapted to meet the situation in Pakistan. The main features of such a system are to build a cooperative rural banking activity under the control of local bodies. With such a system working, the local bodies could also direct capital into the small scale enterprises.



57. The development of a viable system of local government, management of social services and provision of government assistance to small scale enterprises and small farmers would, of course, require skills that are in short supply in Pakistan. In order to produce these skills, the Government will need to pay special attention to training of personnel and provision of incentives to them. This kind of manpower planning would provide inputs for the efficient management of public sector services and public sector support to agriculture and industry. There is also the added advantage that these skills, once developed, will not be lost to the developed countries. As indicated above, Pakistan has made heavy investments in the training of doctors but a very large number of them were lost to the developed world. There is a considerably lesser possibility of leakage of this type of manpower.

58. A change in governments' investment priorities, the establishment of a system of local government and development of the type of human resource needed for implementing a program of basic needs, although crucial for meeting basic needs, will not ensure that the demands and aspirations of the poor people would be fully met. Such an effort would also require that the present leadership groups recognize that by ignoring the demand of the poor for meeting basic needs, they could pay a high political price. Such a perception seems to exist. Under Bhutto, Pakistan made some efforts to redistribute incomes to the poor segments of the population as well as improve public services aimed at them. The efforts made then did not amount to very much because they were essentially of "ad hoc" nature without any institutional backing. Without a system of local government, providing opportunities for participation and management to the local communities, it would not be possible to implement a strategy aimed at providing people with their basic needs; with such a system the cost of implementing it may be even lower than that suggested above.

A Simple Macro Model

The macro economic section of this paper employs a simple macro model to provide some consistent projections of the economy within the framework of certain predetermined assumptions. The model is basically of the Harrod-Domar type, in which the level of investment determines the rate of growth of GDP, given some value for the incremental capital output ratio (ICOR or  $k$ ). Investment ( $I$ ) is itself determined by the sum of domestic saving ( $S$ ) and foreign capital inflows ( $RG$  or resource gap). Population is a function of a predetermined growth rate, and consumption of the difference between GDP and saving, thus permitting the calculation of per capita consumption.

In equation form, there are two behavioral equations for output (GDP or  $Y$ ) and saving, and four definitional equations for investment, consumption, population and percapita consumption. First, output is a lagged function of prior year investments, assuming a two-year lag with equal weights for the lagged years, and an incremental capital output ratio ( $k$ ):

$$Y_t = Y_{t-1} + (.5 I_{t-1} + .5 I_{t-2}) \frac{1}{k}$$

The level of saving depends on prior year saving and the marginal savings rate ( $s$ ) and the increment to GDP:

$$S_t = S_{t-1} + s (Y_t - Y_{t-1})$$

Investment and consumption can be defined as:

$$C_t = Y_t - S_t$$

$$I_t = S_t + RG_t$$

Given a population growth rate (g), the population level for any year can be defined and the level of per capita consumption calculated:

$$P_t = P_{t-1} (1 + g)$$

$$PCC = C_t / P_t$$

For this paper, the capital inflow is assumed to decline from Rs. 15.5 billion in FY1977 to Rs. 12 billion in FY1987. This assumption holds for all cases, even though it might be argued that the pursuit of a basic needs strategy might well lead to greater availabilities of foreign capital.

Three different scenarios have been calculated with this model. First, an "Original Plan" version assumes the patterns of investment as indicated by the Plan, but overall performance considerably less than targeted. Because of the lower growth of output and lower savings rate, the level of investment indicated in this version is actually considerably lower than the Plan's level as well (Rs. 187 billion vs. Rs. 225 billion for the period FY1978-83.) The "BN-Employment" version assumes a lower ICOR, and a lower marginal savings rate, both as a result of pursuing a basic needs strategy that includes the development of more labor-intensive investments in industry and agriculture. The last version, "BN Transfer", assumes that the basic needs strategy is followed, but without a change in the structure of production, thus necessitating a considerable transfer of income from the rich to the poor. This is incorporated into the model by allowing a decline in the marginal savings rate, while holding the ICOR equal to the "Original Plan" version. The specific assumptions for parameters are shown in the table below, along with the detailed projections

for each version. Projections have been carried out for the period FY1978-87, with FY1977 being the base year.

<u>Item</u>	<u>Original Plan</u>	<u>Model Assumptions</u>	
		<u>BN-Employment</u>	<u>BN-Transfer</u>
k	3.5	2.7	3.5
s	.15	.10	.10
g	4.1	2.3	2.3

The model is extremely simple, and many interesting relationships have not been included. For instance, the rate of population growth could have a major impact on the growth of output by its effect on aggregate demand. The shift to basic needs could increase or decrease the demand for labor, imports and other factors and commodities. Lastly, the results for the growth rates reported here (see para.44) apply only to the ten year period through 1987, and if the current assumptions were to hold for a longer period, the results could be reversed. Specifically, the BN-Employment assumptions if carried further will actually result in a lower rate of growth than the Original Plan version. The reason for this is that in the very long run the rate of growth will approach the value of  $s/k$ . It is not proposed here, however, that the values of  $s$  and  $k$  used through 1987 would necessarily be those which would be valid beyond 1987.

MODEL RESULTS

Original Plan Version

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	Cumulative Total 1978-87	% of GDP	Growth Rate 1977-87
Y	144.7	154.6	162.8	171.2	179.9	188.8	197.9	207.3	216.9	226.8	237.2			5.1
I	28.2	29.2	29.9	30.7	31.5	32.3	33.2	34.1	35.5	37.0	38.6			3.2
S	12.7	14.2	15.4	16.7	18.0	19.3	20.7	22.1	23.5	25.0	26.6			7.7
C	132.0	140.4	147.4	154.5	161.9	169.5	177.2	185.2	193.4	201.8	210.6			4.9
RG	15.5	15.0	14.5	14.0	13.5	13.0	12.5	12.0	12.0	12.0	12.0			-2.5
PCC	1650	1685	1700	1713	1724	1733	1741	1747	1753	1756	1761			.7
I/Y	19.5	18.9	18.4	17.9	17.5	17.1	16.8	16.4	16.4	16.3	16.3			
S/Y	8.8	9.2	9.5	9.8	10.0	10.2	10.5	10.7	10.8	11.0	11.2			
P	80.0	83.3	86.7	90.2	93.9	97.8	101.8	106.0	110.3	114.9	119.6			2.3

Units: Y, I, S, C & RG = billions Rs.

PC = Rs.

P = millions people

I/Y, S/Y = percentage

Parameters:

k = 3.5

s = .15

p = .041

MODEL RESULTS

BN - Employment Strategy

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	Cumulative Total 1978-87	% of GDP	Growth Rate 1977-87
Y	144.7	154.6	165.1	175.8	186.8	198.0	209.4	221.0	232.9	245.1	257.8			6.0
I	28.2	28.7	29.3	29.9	30.5	31.1	31.7	32.4	33.6	34.8	36.1			2.5
S	12.7	13.7	14.8	15.9	17.0	18.1	19.2	20.4	21.6	22.8	24.1			6.6
C	132.0	140.9	150.3	159.9	169.8	179.9	190.2	200.6	211.3	222.3	233.7			5.9
RG	15.5	15.0	14.5	14.0	13.5	13.0	12.5	12.0	12.0	12.0	12.0			-2.5
PCC	1650	1722	1796	1868	1938	2008	2074	2139	2201	2264	2328			3.5
I/Y	19.5	18.6	17.7	17.0	16.3	15.7	15.1	14.7	14.4	14.2	14.0			
S/Y	8.8	8.9	9.0	9.0	9.1	9.1	9.2	9.2	9.3	9.3	9.3			
P	80.0	81.8	83.7	85.6	87.6	89.6	91.7	93.8	96.0	98.2	100.4			2.3

Units: Y, I, C, S & RG = billions Rs.

PC = Rs.

P = millions people

I/Y, S/Y = percentage

Parameters:

k = 2.7

s = .10

p = .023

MODEL RESULTS

BN - Transfer

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	Cumulative Total 1978-87	% of GDP	Growth Rate 1977-87
Y	144.7	154.6	162.7	170.9	179.2	187.6	196.1	204.7	213.4	222.3	231.5			4.8
I	28.2	28.7	29.0	29.3	29.6	29.9	30.3	30.7	31.6	32.5	33.4			1.7
S	12.7	13.7	14.5	15.3	16.1	16.9	17.8	18.7	19.6	20.5	21.4			5.3
C	132.0	140.9	148.2	155.6	163.1	170.7	178.3	186.0	193.8	205.5	210.1			4.8
RG	15.5	15.0	14.5	14.0	13.5	13.0	12.5	12.0	12.0	12.0	12.0			-2.5
PCC	1650	1722	1771	1818	1862	1905	1944	1983	2019	2055	2093			2.4
I/Y	19.5	18.6	17.8	17.1	16.5	15.9	15.5	15.0	14.8	14.6	14.4			
S/Y	8.8	8.9	8.9	9.0	9.0	9.0	9.1	9.1	9.2	9.2	9.2			
P	80	81.8	83.7	85.6	87.6	89.6	91.7	93.8	96.0	98.2	100.4			2.3

Units: Y, I, C, S & RG = billions Rs.

PC = Rs.

P = millions people

I/Y, S/Y = percentage

Parameters:

k = 3.5

s = .10

p = .023

Budgetary Adjustments for the BN Strategy

Development Spending

For the six year period FY1977-83, the Plan calls for an expenditure of Rs. 225 billion, of which Rs. 163 billion is in the public sector. This results in a 19% investment rate, provided the economy grows at 7.6% per annum. With a slower growth rate, the investment program would have to be reduced, or the investment rate would rise to unsupportable levels. The BN-Employment Strategy projections shown in Annex I indicate an investment of only Rs. 181 billion or Rs. 130 billion for the public sector (maintaining a 72% share).

In addition, the movement to a BN strategy would entail the expenditure of Rs. 22 billion (see para. 30 in text) for the ten year period, or Rs. 13 billion for the Plan period. Approximately Rs. 2 billion can be saved, however, by reallocating within the social sectors. For instance, the Rs. 5 billion allocated for secondary schools, colleges and universities could be reduced, as well as the large allocation for medical schools and the cost of doctor training. Some expenditures within the Plan are already scheduled to meet basic needs. While it is difficult to isolate these exactly, we estimate this to be about Rs. 8 billion. Thus the Basic Needs approach will add only Rs. 3 billion to social sector spending during the life of the Plan. The non-social sector expenditures need to be reduced by Rs. 39 billion (Rs. 163 - 130 + 3). The attached table indicates areas which could be cut. Clearly, the major need for reductions of this kind arises not from the adoption of the BN strategy, but from the need to bring expenditures in line with resources. In the past, the social sectors have borne the brunt of reductions caused by lack of funds, in part because they are more easily reduced than capital intensive industrial and



infrastructural projects with long lead times. Reducing the industrial and infrastructure expenditures, particularly early in the Plan period, is really an integral part of preserving the allocations for basic needs.

Possible Reductions in Fifth Plan Development Expenditures  
(Rs. billions)

Industry

Cotton Spinning	2.0
Cotton Weaving	1.6
Sugar	3.8
Soda Ash/Caustic Soda	0.7
Karachi Steel	10.5
Tractor	1.2
Transport Equipment	1.3
	<u>21.1</u>

Power

Chasma Nuclear	6.5
Lakhra Coal (partial)	1.0
	<u>7.5</u>

Transport & Communications

Railway (partial)	2.0
Indus Super Highway	2.0
Strategic Roads	1.0
Coastal Highway	.6
"Other Roads"	4.0
Port Qasim	1.7
Telecommunications (partial)	1.0
	<u>12.3</u>

Miscellaneous 5.0

GRAND TOTAL 45.9

Approximately Rs. 21 billion could be taken from the industrial sector, including Rs. 11 billion allocated to the steel mill. While the steel mill is already about 25% completed, most of this is in the form of housing, shops, and transport facilities which could be reallocated for alternative uses. Eliminating the steel mill would also permit the dropping of Port Qasim and some other

related infrastructure investments from the Plan. The losses incurred from stopping the steel mill now are probably less than those likely to be incurred from operating the mill at a loss. This is bound to happen, since the mill is both too small to realize scale economies (hence no export potential) and too big for the domestic market (hence cannot operate at full capacity). Similar but smaller investments in chemicals and heavy machinery do not offer sufficient scale economies to compete effectively against imports, and will result only in higher costs for the consumer. Investments in sugar refining are unnecessary, merely replacing the more labor intensive production of local crude sugars (gur, etc.), and produce a product which is largely consumed by high income groups.

In the power sector, investments are envisioned which are in excess of likely demand and can be deferred outside of the Plan period. The Chasma Nuclear Plant will produce energy at twice the cost of hydro and gas turbine investments, and might be dropped altogether in favor of some alternative source. Substantial gains can be made by smaller investments in the distribution system, which presently loses 30% of the power produced. In the transport/communications sector, a number of investments can be deferred or dropped, since they either add excess capacity or have little or no economic value. The latter include the Indus Super Highway, the Coastal Highway, and Lowari Tunnel (part of the "Other Roads"). Planned investments in railways and telecommunications can be reduced and better use made of existing capacities. In addition to the specific projects listed here there are a number of smaller items which together would furnish reductions of Rs. 5 billion. These include reductions in expenditures for the Islamabad Sports Complex, expansion of television broadcasting, and certain other projects of low priority. The total of these reductions comes to Rs. 45.9 billion, somewhat more than the indicated total of Rs. 39 billion.

### Recurrent Spending

The impact of recurrent costs for meeting BN on the Government's budget are somewhat difficult to estimate. The greatest increase would come in the education field. At Rs. 150 per student per year, the cost of educating 9.4 million students would be Rs. 1,410 million annually. In the health field a BHU costs about Rs. 78,000 to operate, and an RHC about Rs. 193,000 (these estimates based on draft Fifth Plan, vol. 2). For an additional 6,000 BHU's and 1,000 RHC's, the annual cost would be Rs. 661 million. To this is added Rs. 300 million to cover the recurrent costs of staff training, plus miscellaneous costs, resulting in a total for health of Rs. 961 million. In water supply/sanitation, the recurrent costs are fairly low, even though the development costs are high. Furthermore, some of these costs can be recovered from the user. An amount of Rs. 800 million is somewhat arbitrarily set aside to cover these costs, although this is probably too high. The result is an increase in recurrent costs of Rs. 3171 million (Rs. 3.2 billion). At present recurrent expenditures in the combined federal/provincial budget is about Rs. 22 billion. If this grew at 6%, by 1987 it would equal about Rs. 40 billion (in 1977 prices). If 3.2 is added to the 40 billion, the growth rate of recurrent expenditures would rise to 7%. Even if these estimates are for BN recurrent costs are wrong by a factor of 2, the growth rate would be less than 8%. Consequently, the recurrent cost implications of the basic needs strategy do not appear overwhelming.



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*cc. Boskey*

November 28, 1977

Mr. Omprakash Talwar  
ESA/ODUSG/CDPP  
United Nations - Room 2663-1  
New York, New York 10017

Dear Om,

In response to the request of the CDP Working Group, we are forwarding a summary of two major policy studies (i.e., the World Development Report and the Basic Needs Work Program) according to the form indicated during the October meeting.

Frankly, we have found the suggested format difficult to apply to our research studies, and we have been unclear as to the meaning of "major" study or one which would be "relevant for a new development strategy." Since we already publish very complete summaries of our research program in the "Abstract of Current Studies," we are enclosing a copy of this document. Besides giving most of the information requested, the project abstracts give a better overall picture of each project than possible with the tabular form. Summaries of research projects initiated, as well as those completed, since the publication of the Abstract (October, 1976) are also attached in order to bring you completely up to date. We realize that this may mean we have included studies which are not of interest to the CDP, but we felt it better to include everything and let you delete the marginal ones.

I hope that this will satisfy the spirit, if not the letter, of the CDP request. Norman and I are looking forward to meeting you again in March, if not before. Please let us know if we can be of any further assistance.

With warmest personal regards,

Sincerely,



Sidney E. Chernick  
Acting Director  
Policy Planning and Program Review Department

Attachments

CDP INVENTORY OF  
RESEARCH/POLICY STUDIES

Title: Basic Needs Work Program

Field: basic needs

Nature of Study: analytical

Time Horizon: 2000

Geographical Scope: global

Objective Function: policy guidance

Methodology Used: descriptive studies of targets and deficiencies in  
basic needs

Size of Staff Involved: 20-30

Stage of Execution: in progress

Length of Study: 18 months

Starting Date: July, 1977

Completion Date: February, 1978

Difficulties in Implementation: none

Other Remarks: The basic needs work program consists of a series of papers designed to examine the needs, costs and feasible policy alternatives in pursuing basic needs in developing countries. A series of sector papers in education, health, shelter, nutrition and water/sanitation will examine the deficiencies in each sector and the strategies and resources required to meet basic needs by the year 2000. A series of country studies will examine the implications of adopting a basic needs strategy on the country level in terms of policy options, identification of target groups, resource costs, etc. A final paper will review the sector and country work and recommend a general course of action for the Bank. Papers already produced include:

Streeten, Paul, "The Distinctive Features of a Basic  
Needs Approach to Development", Basic Needs Paper No.2,  
World Bank, August 10, 1977.

INVENTORY OF  
RESEARCH/POLICY STUDIES  
FOR THE CDP

Title: World Development Report

Field: world economic outlook

Organization in Charge: World Bank

Nature of Study: analytical, forecast

Time Horizon: 5-10 years

Geographical Scope: global

Objective Function: policy guidance(?)

Methodology Used: world model, country studies

Size of Staff Involved: 20-40

Stage of Execution: in progress

Length of Study: one year

Starting Date: Spring 1977

Completion Date: Summer 1978

Difficulties in implementation: none

Other Remarks: The World Development Report is intended to be a comprehensive analysis of major development issues. The purpose of the study is to develop a more coordinated approach to development problems so that policy makers in both developed and developing countries can better understand the complexities of modern development problems and the policy options available. The study will draw upon work undertaken for the series of "Prospects" papers, as well as country experience with development issues in the past 25 years. Particular attention will be paid to the issues of food production, rural development, population policies and basic needs. The first World Development Report, which will appear in the second half of 1978, will be followed by others on an annual basis. Some background papers include:

Morowitz, David, Twenty Five Years of Economic Development, World Bank, Washington, D.C., 1977.

Prospects for the Developing Countries, 1978-85, World Bank, Washington, D.C., 1977.

Burki, S.J. and Voorhoeve, J., "Global Estimates for Meeting Basic Needs: Background Paper," Basic Needs Paper No. 1, World Bank, August 10, 1977.

Haq, M., "Basic Needs: A Progress Report," World Bank, August 10, 1977.



OFFICE MEMORANDUM

file

TO: Mr. Hollis B. Chenery

DATE: November 21, 1977

FROM: Mahbub ul Haq, Director, PPR *MH*

SUBJECT: Mr. Streeten's Attached Note on Basic Needs

In the attached note, Paul Streeten has summarized some of the more popular criticisms of a basic needs-oriented approach, both in rich and poor nations, and offered his response. You may be interested to glance through the note as it distills Paul's recent experience from his participation in various international meetings and conferences.

Attachment

cc: Messrs. McNamara  
Clark, W. ✓

MHaq:sh

## OFFICE MEMORANDUM

TO: Mahbub ul Haq, Director, PPR

DATE: November 17, 1977

FROM: Paul Streeten, Special Adviser, PPR *PS*

SUBJECT: A Note on Replies to Criticisms of Basic Needs Approaches

Negative Responses to Basic Needs in Rich Countries

The principal reasons for opposition to a basic needs-oriented approach (BN) to development among officials and academics in donor countries and agencies can be summarized under the following headings:

1. The approach would sacrifice investment, output, productivity and growth, for the sake of current consumption and welfare transfers, which only rich countries can afford.
2. Donors respond to developing countries' requests and the response of these countries to BN is, at best, lukewarm; at worst, hostile.
3. There is nothing new except the label; we have done it all the time under the banner of poverty-orientation, employment creation, rural development or whatnot.
4. An implementation of BN is constrained by political obstacles inside the developing countries, and there is nothing the international community can do about this.
5. BN is used as the Trojan horse of Communism (Maoism, Socialism), and most of our client states do not wish to adopt these ideologies and forms of government.
6. BN is often interpreted to require state intervention in the market, and the numerous defects of bureaucratic interference are too well known to need rehearsing; consumers are the best judges of their needs and the paternalism implied by BN must be ruled out.
7. BN has paid inadequate attention to the problem of transition; inflation, capital flight, strikes and even coups d'états are liable to prevent a government from achieving BN.
8. BN has no analytical content and is largely polemics; no one can dispute the desirability of the objective, but implementation is either fuzzy, or, where spelt out, inefficient, unsuited to achieve the declared objective, and possibly counterproductive.

Our replies would be along the following lines.

1) The logical precedence of ends over means in no way implies that means can be neglected; on the contrary. Although there is a welfare component in BN, to meet BN on a sustainable basis calls for considerable investment and growth, although differently composed and distributed than much past growth. Growth is also required to meet the rising standards of BN, as income per head grows, and to achieve objectives other than BN. But it is important to note that BN has itself two important productivity-raising consequences. First, a well-nourished, healthy, vigorous, educated, skilled labor force is a more efficient and better motivated labor force than one whose basic needs have not been met. Secondly, BN attacks some of the most important "correlates of fertility decline", such as women's education, infant mortality and health. Even social security for the aged, the purest "welfare" component of the strategy, may have an important influence on reducing desired family size.

At the same time, BN is a way of doing more and doing better with fewer resources: replicable preventive medical services for all, instead of high-cost curative services for a few; low-cost village primary education instead of high-cost urban tertiary education for the privileged.

Economy in the use of existing resources, and augmentation of these resources through productivity increase, fertility decline and mobilization of local underutilized resources are important resource-saving and resource-augmenting aspects of BN.

2) Donors can select for assistance those countries that are themselves eager to embark on BN. Even where there is resistance, some degree of solicitation of requests can shift development programs in the direction of greater emphasis on BN. Recipient governments are rarely monolithic, and aid and dialogue can support those internal forces that are anxious to meet BN within a short time.

3) While BN comprises a good deal of accumulated experience and knowledge, it does contain some distinctive and novel features. They can be best summarized as the need for redesigned public services, complementing improved earning power, and for greater emphasis on self-management and local mobilization of resources. There is also the positive, operational and concrete focus on meeting specific needs of vulnerable groups, which has tended to be neglected by previous, more aggregative and more abstract, concepts.

4) It is clearly true that some of the most severe constraints are political. Even these should not be regarded as irremovable. The encouragement of reformist alliances, both by country selection and dialogue, can remove some of these obstacles. But politics is not the whole answer. There are gaps in our knowledge and experience and we face administrative difficulties in implementing a BN approach. Such an approach makes a heavy

demand on managerial and administrative skills, though not of the highest order. These skills are scarce in most developing countries. The busting of these administrative bottlenecks and the exploration of appropriate technologies and delivery systems are quite distinct from the problem of over-coming political resistance.

5) It is perfectly true that inequality indexes and poverty measures are lower in Socialist than in Capitalist countries. Revolutionary land reforms and public ownership of all means of production make it easier to pursue a BN strategy (though inequalities of power and access to power can be increased by the existence of a centralized bureaucracy). But the success of a number of non-Socialist countries in meeting basic needs suggests that Socialism is not a necessary condition for meeting basic needs.

6) The question as to how much "supply management" in the form of market intervention is necessary should be treated as an empirical one and should be answered pragmatically, not ideologically. The deficiencies of bureaucratic controls are well known. At the same time, market imperfections in the widest sense have often prevented market responses to private purchasing power, even where this was fairly evenly distributed. The manner in which additional private incomes are generated can be detrimental to the satisfaction of basic needs. There is evidence for this in nutrition, when women cease breast feeding in order to go out to work, or when profitable cash crops replace more nutritious locally consumed crops.

BN is not derived from a paternalistic ideology, although it acknowledges that consumers are subject to all kinds of pressures, from advertisers, consumption patterns of groups they wish to emulate, etc., against which countervailing pressures can legitimately be mobilized. Ultimately, it is the felt needs of human beings in society that should define BN.

7) The example of Chile and of other attempts of radical reforms that failed certainly illustrates that careful thought has to be given to the political and economic problems of the transition from a society in which large inequalities in the distribution of assets, income and power prevail and deprivation is widespread to one in which basic needs are met. Inflation, capital flight, brain drain, or disruption of production by disaffected groups are certainly dangers that can frustrate a BN approach before it had got very far. These threats point to the need to work out carefully the macroeconomic implications of the transition to BN strategies.

8) The criticism that BN lacks analytical content is probably of greater concern to academic economists, who justify their existence by saying the non-obvious, than to practical men involved in getting things done. It also happens to be untrue, for BN calls for a complex analysis of externalities in cross-sectoral linkages, both to reduce costs and to improve the impact on meeting needs. It is true that some of the most interesting unsettled issues lie in the area of politics, administration and the technology of public service design, rather than in economics. The conclusion is that multi-disciplinary studies are called for.

It may, of course, turn out that some of the approaches that are intended to meet basic needs speedily will be inefficient or even counter-productive. "Leakages" are bound to occur in delivery systems and some trade-offs with more conventional objectives may have to be accepted. But in view of the lack of success of many previous approaches, experimentation with new attempts should be welcomed.

#### Removing Recipient Countries' Fears

Recipient countries may be apprehensive lest a basic needs approach adopted by donors implies:

1. sacrificing growth, modernization, industrialization;
2. sacrificing features of the New International Economic Order;
3. sacrificing national sovereignty and self-determination of development priorities;
4. the introduction of irrelevant or controversial political, or economic or social performance criteria;
5. the reduction in the volume of aid;
6. the redirection of aid away from middle-income countries.

1) Meeting basic human needs, it was already argued above, is not at the expense of growth; on the contrary, growth is an indispensable prerequisite, though it is growth that is differently composed and distributed from the dualistic and concentrated growth that has, in some cases, failed to benefit the poor. Nor does it follow that a basic needs approach must confine itself to low or "intermediate" technology. Some highly modern technology may be required, such as satellites for aerial photography and remote sensing. Private and public investment, and administrative resources, have to be redirected from high-income to low-income sectors so as to raise the productivity and incomes of the latter; the work of the poor has to be made more remunerative, public services have to be radically redesigned so as to cover more people more cheaply, and the private incomes of the poor have to be adequate to give efficient access to the public services. All this cannot be done without modernization, industrialization and economic growth.

2) Nor is meeting basic needs necessarily in conflict with the New International Economic Order (NIEO). It is true that the NIEO aims at revising the rules of international economic relations so as to provide more equal opportunities to all governments, countries and societies, whereas basic needs is concerned with the needs of individuals and households; that the NIEO deals with issues such as commodity price support, indexation, the Common Fund, debt relief, the SDR link, trade liberalization, preferences, technology transfer, etc., whereas basic needs deals with food, water, health, education and shelter; that the NIEO aims at unconditional, automatic or semi-automatic, concealed transfers of resources (or correcting reverse transfers), whereas basic needs implies a highly targeted approach, aiming directly at the alleviation of deprivation of particular groups.

But these differences point to the need to advance on both fronts simultaneously. A basic needs program that does not build on self-reliance and help to enable people to help themselves is in danger of degenerating into a charity program, both domestically and internationally, just as a NIEO that does not meet basic human needs may transfer resources from the poor in rich countries to the rich in poor countries.

The aim must be to strengthen existing, and, where necessary, evolve new institutions and processes that are acceptable to both developed and developing countries, to ensure that aid reaches the vulnerable groups. Beyond that, the purpose of the NIEO is to ensure that the ultimate impact of the whole range of countries' policies is consistent with meeting basic human needs. For it is quite easy to envisage situations in which the benefits of basic needs assistance are more than offset by the damage done by an unequal distribution of the gains from trade or foreign investment or by monetary policies.

3) It is possible to combine full sovereignty and autonomy with a targeted approach to BN by evolving buffer institutions or buffer processes, acceptable to both recipient and donor countries, that ensure the achievement of both sovereignty and donors' BN priority, by channelling funds in the right direction and by monitoring BN performance. Multilateral institutions are particularly suited for this role.

4) Similarly, the way to avoid the intrusion of irrelevant criteria into aid transactions is to channel aid through multilateral institutions, on which developing countries are fairly represented.

5) and 6) It has been shown in a separate paper on "The International Implications" that resource requirements for BN are substantially larger, and that middle-income countries do not receive less, though their share in the increments of aid is, of course, lower.

cc: Messrs. Chernick  
Burki

## OFFICE MEMORANDUM

TO: Messrs. Knapp, Cargill, Stern, Clark      DATE: November 18, 1977  
FROM: Hollis B. Chenery *HBC*  
SUBJECT: Country Work on Poverty and Basic Needs

As background for the meeting that Mr. McNamara has called for December 1, I attach the papers that he requested to be prepared on Turkey and Pakistan to illustrate the questions that might be addressed in a program aimed at alleviating poverty. Since the authors were given two weeks to produce these analyses, they are largely personal documents designed to illustrate ways of thinking about basic needs in a specific country context.

A paper "International Implications for Donor Countries and Agencies of Meeting Basic Human Needs" by Streeten and Haq is also attached for information.

cc: Mr. Karaosmanoglu  
Mr. Haq  
Mr. Caio Koch-Weser (without attachments)

Attachments

HBChenery:di

A NOTE ON MEETING BASIC NEEDS:

TURKEY

Prepared by:

Attila Karaosmanoglu  
Mete Durdag

November 17, 1977



A Note on Meeting Basic Needs - Turkey

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SUMMARY AND CONCLUSIONS

Turkey is a rapidly growing middle income country where the practice of democracy has helped to ensure that government resources are allocated to make goods and services available for meeting basic needs. The First Five Year Plan (1963-67) and its fifteen-year perspective identified unmet basic needs and stated the objectives of social welfare policies in terms of meeting those needs. The two subsequent five-year plans have followed essentially the same approach. The scope of government services and the amounts spent on them have increased very rapidly and have reached extremely large dimensions. By now -- at least at a rudimentary level -- basic needs throughout the country are either already met or will very soon be met.

But despite these successes in growth and social welfare policies, serious structural problems remain in the economic, social and political fabric. There is abundant evidence of failure in efforts to reach the poor: disparities in the income distribution are widening; the ownership of agricultural land is becoming more concentrated and the numbers of landless in agriculture are increasing; unemployment rates, particularly among the young, are very high. If such structural problems are not addressed, continuation of a "growth-cum-basic needs" strategy cannot be expected to improve the income distribution. Indeed, it could even contribute to a further worsening of the situation.

At present, annual government expenditures on services and investments in rural areas (excluding expenditures of the local governments, and central government budget expenditures

on large scale water-works, highways, mineral or industrial investments and administrative and judicial services) amount, at current exchange rates, to \$1.8 billion (\$85 per head of rural population)<sup>1/</sup>. These expenditures constitute about 15% of the expenditures in the general budget, and 4.5% of GNP. To try to reduce inter-regional differences, since 1973 these expenditures have by and large been allocated according to indices of social and economic development in the various provinces.

It is difficult to find agreement on what are basic needs, how they should be ranked, and (even more difficult) at what level of satisfaction they should be considered met. For example, do public standpipes satisfy the basic need for water, or should house-connections be the goal? Turkish public opinion on electricity is a case in point: fifteen years ago when only a few hundred villages had electricity, this ranked very low in the list of basic needs. But today, when about ten thousand villages are connected, electricity undisputedly ranks very high.

Impressive progress has been made in meeting the needs commonly listed in the "Basic Needs" literature:

- as regards nutrition, per capita consumption of calories is above the internationally defined requirement and per capita consumption of protein (although animal protein content is low) is close to the levels of developed countries. Widespread famine is unknown.

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<sup>1/</sup> Per capita income in 1976 was US \$990.

TL 16 = US \$1, average for 1976.

TL 19.44 = US \$1 since September 1977.

- socialized medicine has made health services generally available throughout the country and the incidence of contagious diseases and death from such diseases has declined significantly. Still a major problem in health is Turkey's infant mortality rate, which despite rapid declines (from 190 per thousand in 1960; 153 per thousand in 1970; to 123 per thousand in 1975) is very high by international standards<sup>1/</sup>.
- by 1980 sufficient and sanitary water will have been brought to all the villages in Turkey. A serious problem however remains in providing safe water supplies in urban areas.
- provision of basic housing (particularly that which is earthquake-proof) remains a problem, although the increases in the total number of dwelling units in rural and urban areas have roughly kept pace with population growth. Living conditions have been worsening in urban areas as a result of rapid urbanization and uncontrolled squatter housing developments between 1965 and 1972.

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<sup>1/</sup> This is a very puzzling situation. The greater accuracy of Turkish statistics may be the reason why these rates are high compared with those of other developing countries. It is also necessary to note that maternity and child care programs received only 6.5% of the health expenditures identified in Annex III. This may indicate a gross mis-allocation of health expenditures.

- problems of energy development and the supply of cheap and suitable sources of energy (use of lignite rather than dung and firewood) are still not satisfactorily resolved. Despite huge subsidies on petroleum products, ostensibly to keep kerosene prices down, and huge subsidies on lignite, both designed to encourage a shift from the use of dung to coal and kerosene for lighting, cooking and heating, 37% of the available dung (equivalent to 3.1 million tons of chemical fertilizers) is still used for heating and cooking purposes.
- all villages had road connections by 1971 but only 52% of them were served by stabilized all-weather roads. The village roads still to be constructed or substantially improved will require enormous efforts. The planned target date of connecting all villages to all-weather roads is 1982.
- a major effort has been carried out in elementary education and adult literacy programs with a doubling in the number of schools and enrollment and a tripling of teachers in the past 15 years.
- coverage of social security schemes has increased very rapidly. Persons covered by such schemes and their dependents make up about 42% of the population.

The problems associated with meeting basic needs change once goods and services become widely available to the poor. At this stage policy makers have to face some important tradeoffs

in the allocation of resources. The first is between (a) increased allocation of resources to further extend the services (e.g. free house connections for water supply and electricity) without attempting to change present social and institutional structures (settlement patterns or land distribution for example), and (b) allocating resources for programs of institutional and structural reform. Another tradeoff is between charging the beneficiaries of services, so as to increase funds for improving quality, or maintaining existing quality standards. Cost recovery is a serious problem. If the principle of cost recovery had been applied from the start, Turkey's services would not have expanded as rapidly as they did, and would only have been used by those who could afford to pay for them. But after such expansion it is extremely difficult politically to introduce user charges.

Major structural problems remain, or even get worse, when efforts to meet basic needs are extended indiscriminately, without regard to budgetary burdens, costs of maintenance or quality and unaccompanied by structural reforms. The temptation to do this is great. Political forces are at work in Turkey for an ever-increasing expenditure on measures to alleviate poverty. Difficulties in increasing public revenues mean that these measures are largely financed by inflationary means. This is a self-defeating exercise as inflation causes deterioration in income distribution and increases the hardships the poor suffer. At present, Turkey's basic needs-oriented services have the character of a very costly welfare system. They are not targeted

so as only to reach the poor. People who could afford to pay for some of these services get them free, reducing the share of the really poor.

Despite Turkey's high growth, a democratic political system and widely accepted social values which give high political premiums in bringing services and social equity to people, there is evidence of serious failures in development efforts and efforts to reach the poor. For example:

- The distribution of income and material welfare in Turkey is very unequal; moreover, there are indications that the income distribution is rapidly deteriorating. The Gini-coefficient, estimated to be 0.51 by a 1973 survey that underestimates urban incomes, and in particular profit income, is likely to be close to 0.55. The top 10% of the population receives at least 40% of income, while the bottom 40% receives no more than 11.5%.<sup>1/</sup> In fact, between 1963 and 1973 the income share of the lowest earning quintile of households declined from 4.5% to 3.5%, and that of the next lowest quintile from 8.5% to 8.0%. Regional disparities remain important, with average income in Eastern Anatolia equal to only two-fifths of average income in the large urban areas of Istanbul, Izmir and Ankara.

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<sup>1/</sup> Households in the top decile command at least 35 times as much income as households in the bottom decile.



- There is an increasing discrepancy between the numbers of people entering economically active age groups (15-64) and increases in employment. (Between 1962 and 1972, employment increased by 12.7%, from 12.5 million to 14 million; population in age groups 15-64 in the same period increased by 27%, reaching 20 million).
- The number of landless households in rural areas has been increasing, from 9% of all rural households in 1963 to 22% in 1973.<sup>1/</sup> Agricultural price policies and credits, which are among the principal causes of inflationary pressures, have been increasing income disparities between the rural poor and the rich farmers.

Thus, although progress in Turkey has been such that it is no longer appropriate to talk about a basic needs-centered development strategy, to improve conditions for the poor it will be essential to introduce policies that:

- have a better answer to the question of employment and population growth;
- slow down urbanization by reducing the push of rural areas (through improvements in land tenure, services, etc.);
- increase productivity in small-scale enterprises both in agriculture and in other sectors;
- increase efficiency in the use of resources allocated to poverty-alleviating activities;

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<sup>1/</sup> Kirsal Refah Politikaları, Table 2, SPO, 1977.

- reduce the inflationary pressures which have contributed to the deterioration of income distribution.

None of these problems has an easy answer, but they are not insoluble. The difficulties they pose are basically political. Very large numbers of people are involved both in delivering and receiving these services. Fear of losing what little they get under the present arrangements will push even those who would gain from a more equitable and rational allocation of resources into the ranks of resistance to change.

The Turkish case demonstrates that it is within the means of a middle income country to meet the basic needs of a rapidly growing population. But unless efforts to meet basic needs are accompanied by structural changes to increase the productivity of unproductive sectors of the economy and segments of population, they turn into perpetual and costly welfare programs which do not prevent the deterioration of income distribution.

November 14, 1977

A Note on Meeting Basic Needs - Turkey

I. Introduction

1.1 Since the beginning of the Republic, all Turkish Governments have had a populist approach and all have tried with varying degrees of success to initiate or enhance social change. With the establishment of a multi-party system in 1946, and as a result of efforts towards the establishment of a genuinely democratic society, enlightened dictatorship was replaced by governments which had to rely on the popular vote. The founders of the Democratic Party which came to power in 1950 were members of Parliament who in practice opposed the land reform bill proposed by the Peoples Republican Party Government. The Democratic Party movement could be characterized in essence as a coalition between big landlords, big businesses and the poor. Support from the poor could be obtained by a rapid increase in incomes and employment which was financed through inflationary means; inflation and the structure of taxation worked seriously against middle income groups. Mr. Menderes, Leader of the Democratic Party and the Prime Minister, announced proudly many times that the Democratic Party Government had increased income in rural areas and created

a millionaire in every street. Initial efforts (1950-1960) to increase employment (a large number of ill-conceived projects were used for this purpose), to bring services to rural areas much more rapidly than before, and price support policies to increase agricultural income in order to satisfy the largest number of voters, resulted in a very serious misuse of resources and the downfall of the Democratic Party Government in 1960.

1.2 With the establishment of the State Planning Organization (SPO) in 1960,<sup>1/</sup> expenditure discipline was introduced. Although resource misallocations and suboptimal policies continued, economic growth increased and was maintained at relatively high levels. The only consensus (in addition to belief in democracy and association with the West) that seemed to exist among all political parties since 1946 was a commitment to rapid industrialization within the framework of a mixed economy, preference for advanced technology and political independence based on self-sufficiency.

1.3 Historically, egalitarian tendencies and social mobility have been very strong in Turkey. Many major economic and social reforms relied either on these tendencies or on the public's desire to westernize. The only major reform which could not be carried out, despite several attempts, was land reform.

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<sup>1/</sup> Annual transitional programs were prepared for 1961 and 1962. The First Five Year Plan was inaugurated in 1963.

1.4 In the following sections of this paper, we will review the macro-economic developments of the recent past, assess progress in meeting basic needs and try to identify unresolved problems and the policies that will be needed for more efficient alleviation of poverty. At this point, however, a short but important list of socio-political factors needs to be borne in mind:

- The Turkish economy is presently in very serious short-term balance of payments difficulties as a result of the failure of recent governments to recognize the need for policies to adjust to changes since 1974 in the international economy. In the short run, stabilization measures will have to have highest priority. Political cost of such measures may inhibit governments at least for some time in implementing other drastic reforms.
- Rapid increases in open unemployment as a result of population increases, increasing mechanization of agriculture, increasing participation of women in the labor force and the rapid decline in outward migration are creating an explosive social situation.
- Inability to effect a land reform and the increasing numbers of landless households have resulted in high levels of migration to urban areas where absorption capacity is limited. This is contributing to the explosiveness of the situation.

- People benefitting from land speculation in urban areas are politically very powerful and are an obstacle to a rational use of land; hence they contribute to undesirable housing conditions and difficulties in bringing services to the urban poor.
- Extending services and maintaining them in a country with a very dispersed pattern of settlement (about 36,000 villages which are composed of more than 70,000 settlement units) is a very expensive proposition. There is strong resistance to concentrating the delivery of services on fewer, strategically located, villages.
- There is a firm commitment in Turkish public opinion to rapid growth, industrialization and advanced technology. In presenting the need for emphasis on agriculture, and choice of more employment-creating techniques and investment packages, it needs to be shown clearly that these would not necessarily slow down growth and industrialization.

## II. An Overview of the Recent Past

2.1 Turkey's GDP has grown impressively during the era of planned development since 1963. (See Table 1.) Output per capita has been rising at 4-5% per year. In line with the Plans' emphasis on industrialization, industrial value added increased at almost 10 percent a year during 1963-1976 and the industrial sector's share of GDP increased by half (Table 2). The rapid growth in industrial value added was accompanied, during the First and Second Plan periods, by diversification from traditional consumer goods industries to intermediate and investment goods industries. In line with the development strategy of the Third Plan, which gave high priority to heavy industry, the share of investment goods industries continued increasing; that of intermediate goods took a downward turn despite the Plan's expectation that it would reach 44 percent by end 1977.

2.2 The service sector already accounted for 46% of GDP at the beginning of the Plan period, and grew more rapidly than planned (at the expense of industry) increasing its share to over 53 percent in 1976.

Table 1: GROWTH OF GROSS DOMESTIC PRODUCT BY SECTOR, 1963-76  
(percent per annum; 1968 factor prices)

<u>Sector</u>	<u>First Plan</u> <u>1963-67</u>	<u>Second Plan</u> <u>1968-72</u>	<u>Third Plan</u> <u>1973-76</u> 1/	<u>1963-76</u>
Agriculture	3.0	3.4	3.4	3.2
Industry	10.9	8.7	10.0	9.9
Services	7.2	7.9	6.8	7.9
Construction	8.1	4.8	7.6	6.8
Transportation	8.4	10.9	10.3	9.8
Housing	4.4	5.0	6.5	4.9
Others	7.5	8.3	8.5	8.1
GDP	6.4	6.7	7.5	6.8

1/ First four years of the Third Plan, with provisional data for 1976.

Source: SPO, 1977 Annual Program, Table 13 (Resmi Gazete,  
11 December 1976).

Table 2: COMPOSITION OF GROSS DOMESTIC PRODUCT, 1963-76  
(percentage; 1968 factor prices)

<u>Sector</u>	<u>1962</u>	<u>1967</u>	<u>1972</u>	<u>1976</u> 1/
Agriculture	38.1	32.5	27.8	23.8
Industry	15.4	19.0	20.9	22.9
Services	46.5	48.5	51.3	53.3
Construction	6.5	7.0	6.4	6.5
Transportation	7.2	7.9	9.6	10.6
Housing	5.9	5.2	4.8	4.6
Others	26.9	28.3	30.5	31.7
GDP	100.0	100.0	100.0	100.0

1/ Provisional

Source: SPO, 1977 Annual Program, Table 13 (Resmi Gazete,  
11 December 1976).



2.3 At just over 3% a year, the growth of agriculture fell short of planned targets, although this was a respectable rate by international standards. Agriculture's share of GDP declined from 38 percent in 1962 to below 24 percent in 1976. Agriculture nonetheless remains the largest sector in the economy, providing employment for about 55 percent of the labor force. During the Plan era there have been substantial changes in the pattern of land ownership and rapid growth in irrigation and the use of modern machinery and inputs. The proportion of rural families without land has gone up dramatically, while the average size of holding has doubled. 1/ The process of concentration of holdings and eviction of small farmers has probably accelerated since 1973, as is implied by the near doubling of the number of tractors between 1973 and 1976.

2.4 The most striking feature of the pattern of income use in the planned era has been the rise of savings and investment ratios. The gross national savings ratio increased steadily for most of the period; from 12% in 1960-62 to around 18% since 1968. (Table 3.) This savings performance was made possible through restraints in consumption. In per capita terms at constant prices, private consumption rose at the rate of 3% per year over the 1962-1972 period, compared to annual increases of 3.5% in public and private consumption taken together and growth of over 4% in GDP.

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1/ See Chapter IV, Section B below.

As to the pattern of private consumption, agricultural commodities have been losing ground to consumer durables. While private consumption's share of GNP was sharply declining, that of public consumption gradually rose from 11.7% in 1960-62 to an average of about 13% during the Second Plan period, largely because of growing expenditures on personnel, which accounted for 78% of total public consumption in 1972 against 70% in 1963. The share of public consumption again declined to 12% in the Third Plan period.

2.5 A steady rise in the investment ratio has been the propelling force behind the rapid growth of national income during the Plan period (Table 3).

Table 3: PATTERN OF INCOME USE, 1962-1976  
(percentage)

	1960-62	First Plan 1963-67	Second Plan 1968-72	Third Plan 1973-76	1975	1976 <sup>1/</sup>
GNP (current market prices)	100.0	100.0	100.0	100.0	100.0	100.0
External Resources	3.2	2.1	2.1	4.4	5.2	4.4
<b>TOTAL Resources</b>	<b>103.2</b>	<b>102.1</b>	<b>102.1</b>	<b>104.4</b>	<b>105.2</b>	<b>104.4</b>
Investment	15.3	18.4	20.3	22.4	22.9	24.0
Fixed Capital Formulation	14.6	16.1	18.9	19.9	19.9	22.2
Public	7.7	8.4	9.8	10.2	10.1	11.8
Private	6.9	7.7	9.1	9.7	9.8	10.4
Stock Changes	0.7	2.3	1.4	2.5	3.0	1.8
Consumption	88.0	83.7	81.8	82.0	82.2	80.3
Public	11.7	12.1	12.9	12.0	11.9	13.0
Private	76.3	71.6	68.9	70.0	70.3	67.3
Gross National Savings	12.0	16.3	18.2	18.0	17.8	19.7

<sup>1/</sup> Provisional

Sources: M. Durdag, Some Problems of Development Financing: The Turkish First Five Year Plan, Dordrecht 1973, Table XVIII. IBRD, Turkey: Prospects and Problems of an Expanding Economy, 1975, Table 2.5, and SPO, 1977 Annual Program, Table 5.

2.6 Total investment has continued to be more or less equally divided between the public and private sectors, as it was before the Plan period, with a growing proportion directed to industry (manufacturing, mining and energy) and transportation. Industrial projects accounted for under a third of public investment in the First Plan, but for 44.7% in the Third. Meanwhile, the shares of public investment directed to agriculture and to social services (housing, education and health) have both been reduced sharply-- from above 18% in the First Plan period to 10% in the Third Plan. The reduction in the share of education was particularly severe, declining from 12.2% of total public investment to 6.5%.

2.7 The incremental capital/output ratio in the First Plan period was 2.6, the same as the target, and in the Second Plan period it was slightly lower than envisaged (3.0 versus 3.2). The results of the Third Plan implementation so far indicate that the ICOR target of the Plan (3.3) will be attained. One could interpret the achievement of the Plans' ICOR targets as a rough indication of efficient resource use in the Turkish economy. However, we instead tend to interpret it as a sign that with the same level of investment either a higher growth can be attained or some social concerns could be better met, since there is widespread evidence of the misuse of investment resources.

2.8           As we shall see in the following chapters Turkey has managed to allocate resources for basic needs while pursuing a high growth strategy based on a capital-intensive pattern of industrialization. In fact, this attention to basic needs may be the characteristic which differentiates Turkey from countries following similar industrialization patterns and at comparable levels of development, such as Colombia, Mexico and Brazil.

### III. Developments in Meeting Basic Needs

3.1 Questions such as what constitutes a person's basic needs, how these needs should be ranked, and at what level of satisfaction they should be considered met have no ready answers. Judgments depend as much on social values as on biological necessities, and they may thus change over time, as well as differing from one country to another. This Chapter will discuss the availability of goods and services generally considered necessary for satisfying basic needs. The problem of definition becomes increasingly more complicated as minimum biological requirements for food, shelter, freedom from disease, and so forth are successfully met.

3.2 Take education, for example. What type of education is a basic need? Is it only literacy, or something more? There are similar questions regarding all items commonly appearing on lists of basic needs. It will be useful to mention here that fifteen years ago, when only four hundred villages had electricity, very few people would have considered electricity among the basic needs in Turkey. But today, when over ten thousand villages have electricity, it is generally considered as an indisputable basic need.

A. Planning and Allocation of Resources for Basic Needs

3.3 The First Five Year Plan (1963-67) and its fifteen year perspective identified unmet basic needs and stated the objectives of social welfare policies in terms of meeting these needs. Subsequent plans have followed essentially the same approach. The State Planning Organization tried to gauge the receptivity of people to various programs, especially in rural areas, and undertook surveys to identify the priorities people themselves assigned to different services addressing their basic needs. (Annex I gives an example.) Surveys were also conducted to find out how priorities were actually seen by the different branches of the administration, and what allocation criteria they were using. In addition, indices were developed showing the relative stages of development in different provinces. (See Annex II.) The SPO tried to incorporate the results of such studies in the actual allocation of resources.

3.4 Since 1973 social and economic development indices have been in use as a basic criterion in the allocation of public expenditures and the extension of subsidies and encouragement measures. These indices were designed with the objective of developing an allocation pattern which would reduce income differences between the regions, and they are therefore not

target group-oriented. This means that in many cases people who are better-off but who happen to live in relatively less developed provinces receive priority over poorer people living in more developed areas. In the allocation of services within the provinces these criteria are supplemented by others (see Annex II, Section B). Although "Government's discretion" and "villagers' demand" ranked high among these, the SPO has tried increasingly to implement more objective criteria.

3.5 At the lower level of allocation, community participation is also used as an indicator of priorities, especially in school, road and drinking water projects. In the rural areas especially, cooperatives are used as instruments of community participation; more than 11,000 cooperatives existed in 1975. Government participated in investment projects which many of these cooperatives undertook (in 1975, 20% of projects, 30% of project costs).

#### Spatial Problems Related to Meeting Basic Needs

3.6 As a result of very rapid urbanization 43.4% of Turkey's population was living in urban areas by 1976. In rural areas, the settlement pattern is dispersed: 34.6% of the 35,640 villages in Turkey are composed of more than one settlement unit. 1/ Depending on the different definitions

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1/ Many Turkish villages are comprised of two or more districts (settlement units), sometimes quite far apart from each other.

used by the different Ministries, the total number of settlement units varies between 70,000 and 74,000. The rural population has slowly been becoming less scattered, with growing numbers of people living in the larger settlement units, while the proportion of rural population living in settlement units of under 500 people declined from one third in 1950 to about a fifth in 1965. Several studies carried out by the SPO in cooperation with the other Ministries concerned indicate that it would be most efficient to concentrate the delivery of public services on about 7,000 "central villages". Not only would this strategy be the most cost-effective; it would also reach the largest number of people. It has met with immense political and social resistance, stemming from a wide variety of motives on the part of different pressure groups. Nonetheless, it has found its way into the Third Plan and some preparatory work has been carried out by the SPO. At present, programs are geared to bringing all services to all settlement units, starting with larger ones and to a considerable extent using economic and social development indices. Critical reviews evaluating the cost-effectiveness of present efforts are not available.

3.7 In evaluating the problems of meeting basic needs, Turkey's harsh climatic conditions and frequent earthquakes should be recognized in addition to its dispersed settlement pattern.



Such conditions increase the importance of heating, shelter and roads for satisfying basic needs in Turkey. Heavy snow isolates many communities in the Eastern parts of the country for several weeks, sometimes months, from the rest of the world. Delivery of health services or, in the case of earthquakes, delivery of disaster help, becomes very difficult.

#### Resources Allocated to Meeting Basic Needs

3.8 Expenditures related to activities meeting basic needs have been increasing continuously. In 1977, those in rural areas reached a level of about \$85 per capita (15% of appropriations in the General Government Budget). The table in Annex III shows the magnitude and composition of such expenditures.

3.9 In addition to direct expenditures the economy bears the cost of several price and subsidy policies. Price policies can be discussed in two major groups. The first is the disguised or explicit subsidies given through prices of consumer goods and services. Although they are widespread, subsidies of this type have not been analyzed to identify total costs or their beneficiaries. Examples of consumer goods sold at subsidized prices are bread, margarine, salt, meat, kerosene, fuel oil, coal and lignite. In addition, utilities such as electricity and water, urban transport and transportation on state railways and maritime lines are all

subsidized. Primary and intermediate education for everyone, prescription medicines and hospitalization at state hospitals for the "needy", medical service to civil servants including the retired, and connection of electricity to private houses in villages are all free.

3.10 The other category is agricultural support prices and subsidies. These have been conceived as helping to increase the country's food supply, reducing the urban-rural income differences, stabilizing agricultural incomes and democratizing the rural sector by strengthening the small farmer. Financial incentives and subsidies to agriculture involve a number of inputs, including irrigation, fertilizer, credit for working capital, and support prices for various grains, cotton, sugar-beet, tea, tobacco, etc. Altogether eighteen crops were included in the support price program in 1977. (For a review of their impact see Chapter IV, on unresolved problems.)

3.11 There are a variety of other policies in force with the intention of reaching the poor. An interesting one among them is the priority given to processing the applications of workers for migration abroad. Workers from disaster areas, forest villages, and villages with development cooperatives receive priority. When one considers the fact that the labor force abroad was 800,000 in 1973, the significance of these priorities is more easily understood.

3.12 Certain tax exemptions also need to be mentioned. For example, small farmers are exempt from taxation, and small businessmen's exemptions from income tax are much higher than the minimum cost-of-living deduction allowed other categories of income tax payers.

B. Nutrition

3.13 Per capita consumption of calories in Turkey is above the internationally defined requirement and per capita consumption of protein (although animal protein content is low) is very close to the levels of developed countries. Widespread famine is unknown, even in bad harvest years. There are no surveys showing the country-wide nutrition situation, including variations in composition and standards of nutrition. Lack of endemic cases of malnutrition may explain this lack of interest, but it is still not possible to conclude that the basic nutritional needs of all the population are being satisfactorily met.

C. Health

3.14 Major discrepancies in the distribution of health services in different parts of the country, and an unbalanced composition of health personnel, were the bases of the socialized medicine program and increased investments in schools for health personnel at the

beginning of the Plan period. The socialized medicine program was first introduced on an experimental basis in eleven provinces in 1963, to make health services accessible to people living in less developed parts of the country by providing them free or on a partial cost-sharing basis. It was very well received and has rapidly (perhaps too rapidly) been extended: by 1977 it covered 44 provinces, servicing 21 million people.

3.15 The program is organized at four levels: (i) village "health houses", directed by mid-wives; (ii) "health units", bringing health services to the home level, which are each directed by a physician and have at least three health houses attached to them; (iii) "group hospitals" in district and provincial centers, each with 7-30 health units attached to them; (iv) provincial "directorates of health", which administer group hospitals, public health commissions, maternity and child health, malaria eradication, community health, syphilis control, leprosy control, trachoma control, tuberculosis control, population planning and health group commissions, and specialized hospitals.

3.16 Developments in the health field in the fifteen years since 1963 have been very encouraging, with positive changes in the number and composition of health personnel. Shift of emphasis from curative to preventive medicine has resulted in significant improvements in the general health situation. Although still very high by international standards, infant

mortality has declined from 190 per thousand in 1960 to 123 per thousand in 1975. The incidence of contagious diseases and deaths from such diseases has declined significantly (see Table 4).

**Table 4: NUMBER OF CASES AND DEATHS FROM SELECTED INFECTIOUS DISEASES WHICH MUST BE REPORTED**

Hastalık — Disease	1967		1968		1969		1970		1971		1972		1973		1974	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Ansefalit — Encephalitis .....	7	1	12	1	9	1	2	2	5	1	9	4	21	8	8	5
Boğmca — Whooping cough .....	12984	86	10998	41	9388	41	7268	21	6351	28	6105	34	3987	18	2851	11
Cüzam (lepra) — Leprosy .....	278	171	374	21	128	—	116	39	178	15	208	177	136	95	67	41
Çiçek — Smallpox .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Dişteri — Diphtheria .....	1834	166	1696	136	1233	104	1110	63	998	67	792	74	892	58	470	25
Dizanteri — Dysentery .....	539	—	529	4	903	5	950	4	824	1	715	3	839	6	616	4
Doğum humması — Puerperal fever .....	12	3	8	—	11	1	7	1	4	1	4	—	3	1	—	—
Enfeksiyöz hepatit — Infectious hepatitis .....	3766	35	5796	32	7862	87	8758	67	9397	82	7711	38	11925	48	10000	56
Epidemik menenjit — Epidemic meningitis .....	268	29	388	41	336	35	331	47	263	32	716	48	3178	251	3923	241
Kızamık — Measles .....	42906	414	38266	274	66111	532	46761	621	43002	446	23601	218	43271	545	12836	203
Kızıl — Scarlet fever .....	1397	4	2092	2	3058	6	2987	7	2259	1	1723	2	2745	4	3633	3
Kolera — Cholera .....	—	—	—	—	—	—	384	52	—	—	—	—	—	—	—	—
Kuduz — Rabies .....	63	63	50	50	41	41	33	33	38	38	50	50	41	41	52	52
Lekeli humma — Typhus .....	—	—	—	—	1	—	—	—	—	—	—	—	1	—	—	—
Malta humması — Brucellosis .....	71	—	63	—	42	—	37	2	70	—	67	—	84	—	70	—
Paratifo ve diğer gıda zehirlenmeleri — Paratyphoid and other food poisoning .....	533	14	554	4	655	10	651	4	587	5	614	31	839	15	477	5
Poliyomiyelit — Poliomyelitis .....	814	27	2026	92	384	13	701	39	584	21	424	17	500	23	348	17
Ruam — Glanders .....	2	2	2	—	1	1	—	—	—	—	—	—	—	—	—	—
Şarbon — Anthrax .....	1159	4	794	15	849	6	912	7	843	7	669	9	697	2	526	5
Tifo — Typhoid fever .....	3354	105	2982	84	2250	57	3402	56	1729	45	1550	40	1430	37	1401	35
Yaz ishali — Diarrhoea of the newborn ..	40639	339	24975	369	18415	257	15716	333	12936	170	7714	29	2765	43	5216	133

3.17 It is necessary to note here, however, that the geographical distribution of medical personnel is far from satisfactory: services in areas of socialized medicine suffer greatly from lack of personnel:

	<u>Budgeted</u>	<u>1975</u>	<u>Actual</u>
Doctors	1,292		449
Para medics	1,352		1,021
Nurses	1,202		475
Mid-wives	5,216		3,949

D. Water

3.18 The availability of sufficient and sanitary water has been a long-standing problem in most of the rural areas in Turkey. Between 1950-65, water supply was brought to 30,835 settlements but in 1964, as a result of increasing population, poor maintenance and exhaustion of resources, only about half that number actually had sufficient water. The principle of the First Five-Year Development Plan was to give priority in drinking water projects to communities willing to participate (through contributing capital or labor). At the beginning, the response was very favorable but later governments did not lay enough emphasis on the participation criterion. Nevertheless, in 1973 43,196 settlements had sufficient and clean water.

3.19 The Third Five-Year Plan has the objective of reaching all villages, and there is no reason to assume there will be a major shortfall. During the First and Second Plan period, plan targets for village waterworks have been exceeded by considerable margins: in the Second Plan , for instance, 19,686 villages received water against a target of 12,500. The water problem could now be stated as maintaining the existing supply system and finding solutions to water shortage in urban areas. A 1976 WHO study 1/ indicates that in the 1975-80 period in rural areas 100% service level will be reached, while the service level in urban areas will remain at 80%. In almost all urban areas, there is now a water shortage which is managed by rationing. This makes it difficult to extend the water supply systems to squatter areas, though two large municipalities, Ankara and Izmir, give priority in extending services to such areas. Another problem is the increased danger of contagious diseases in urban areas because reduced water pressure or breaks in the flow of water cause dirty water to leak into the supply system. As can be seen from Table 4, reported cases of the majority of waterborne diseases (i.e., typhoid, paratyphoid, dysentery, poliomyelitis, hepatitis) have not been decreasing as rapidly as others.

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1/ Turkey - Water Supply and Sewerage Sector Study, March 1976.

E. Housing

3.20 Urban housing problems are far more serious than rural. The rapid expansion of urban population since the mid-1950s has put great pressure on the supply of municipal services, and created a hectic housing market with uncontrolled profits. Squatter settlements, or gecekondus, have mushroomed within large cities. The socio-economic implications of these developments go far beyond the physical provision of houses.

Housing Policies

3.21 Although the Government has introduced several schemes to improve various aspects of the urban housing problem, the official housing policy on the whole has not been very effective. Since the large number of private contractors could not be organized into efficient large companies, Government control over the quality of material and the type of construction has been weak. However, the real estate tax introduced in 1970 has helped in checking the growth of luxury housing. A General Directorate of Land office was established in 1969 to prevent land speculation and to purchase land for public housing as well as for industrial and touristic construction. This office has not so far been effective against land speculation, and its land purchase activities have been mainly for industrial project sites.



There is also an urgent need to organize the housing credit institutions into a more efficient system. At present, housing credit is provided by a diverse range of institutions, but is rarely available for the type of housing within the means of the poor.

3.22 Between 1965 and 1972, the total number of dwelling units in rural areas increased 8 percent while rural population had grown 5 percent; in urban areas, housing expanded by about 50 percent, just keeping pace with the growth of population. Despite this progress, providing basic facilities and physical improvement remain as a serious problem. It is necessary to add immediately that physical improvement is more urgent than it may sound, as Turkey is on a tectonic line and earthquakes take many lives each year. Earthquake-resistant housing is an essential part of the basic shelter requirements of the population.

Urban Housing Conditions 1/

3.23 In 1972, almost half the urban dwellings had only one or two rooms, (compared with over 60% in 1965) and occupancy rates were high compared with those in developed countries. Ten percent of the houses were structurally weak, and another 15 percent were in reparable condition. In cities with populations

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1/ Urban settlements are those with a population of 10,000 or more.

under 500,000, only about 60% of dwellings had a kitchen, piped water and bath; about half had an inside toilet and 85% had electricity. In the larger cities the housing conditions were better, about 85% having kitchen and piped water facilities, about 77 percent having bath and inside toilet facilities and 94% having electricity.

3.24 The gecekondus pose a major housing problem in urban areas. Their number increased from 50,000 in 1955 to 700,000 in 1972, when they accounted for about a quarter of the total number of urban dwelling units, and for 40% of those in Istanbul, 50% in Adana and 65% in Ankara. Most gecekondus are of substandard construction quality and facilities. Only 30% of them have piped water (almost all have access to public stand pipes) and 60% have electricity.

#### Rural Housing Conditions

3.25 Rural dwellings are apt to be more crowded than urban, though occupancy rates per room have improved slightly (from 2.7 in 1965 to 2.44 in 1972). About two thirds of the houses have only one or two rooms. In 1972 around 20,000 families lived in caves and tents. In villages, which account for the major part of rural housing units, only 18% of the total houses had a kitchen; 24% an inside toilet; 11% piped water and about 1.5% electricity.

F. Energy

3.26 Energy development and the supply of cheap and suitable sources of energy is still a problem both in terms of industrial development and in terms of meeting basic needs for lighting, heating and cooking. Dung and firewood are extensively relied upon for heating and cooking by the people in rural areas, especially in the east and northeast of the country. These two inefficient sources of energy have met progressively less of Turkey's expanding demand for energy: they accounted for 28% of energy consumption in 1975, compared with 53% in 1962. Even so, the volume of dung burned has increased by 25% over this period, with a high cost to the economy in terms of the manure lost. One of the reasons for the persistent use of dung and firewood is the high production and transportation costs of coal. Coal prices are subsidized but subsidies are not target group-oriented; therefore prices are still too high for the poor to afford. A country like Turkey rich in lignite deposits should be able to find a solution to this question.

3.27 Household consumption of electricity has been increasing very rapidly and there is a very high demand by villagers for electricity.

In the early 1960s only a few hundred villages had electricity; by the end of the Second Plan 4,300 villages had been supplied and in 1976, 9,300 villages (about 25% of the total)

had electricity. Of the total number of 1,689 municipalities, only 169 were without electricity in 1976. Despite such rapid progress, 50 percent of the population, mostly in rural areas, is still without electricity.

### G. Transportation

3.28 The dispersed nature of settlements, mountainous terrain in the eastern parts of the country and harsh winters with heavy snow constitute a perennial problem of transportation. A major highway building effort started after the Second World War, and these major roads were extended during the 1950s. The 1960s and 1970s saw the rapid development of village roads. Excluding primitive roads, the length of the road network has increased only slightly since 1963, but surface quality has been considerably improved: there were 25,500 km. of hard-surfaced roads in 1975, two and one half times that of 1963.

3.29 All villages had road connections by 1971, 52% of them (55% of the country's village population) being served by stabilized all-weather roads. The recent pace of expansion of the village roads is best illustrated by the fact that within only one year, 1974, 4,366 km. of village roads serving 1,381 villages were surfaced; 2,414 villages were connected with new graded-earth roads of 8,116 km.; and 1,049 km. of village roads

were improved. Yet the village roads still to be constructed or substantially improved requires enormous efforts; according to present plans the target date of connecting all villages to all-weather roads is 1982.

#### H. Education

3.30 A major effort has been carried out in elementary education and adult literacy programs during the last 15 years. In 1976 the adjusted enrollment ratio for elementary education reached 108. The speed with which elementary education is being spread may be seen from the following table:

<u>School Year</u>	<u>Elementary Schools</u>	<u>Teachers</u>	<u>Enrollment</u> (000)
1960-61	24,398	62,526	2,867
1965-66	30,863	89,105	3,933
1970-71	38,234	132,721	5,013
1975-76	42,000	173,000	5,512

3.31 The distribution of elementary school facilities between rural and urban areas in 1975/76 was as follows:

	<u>Rural Areas</u>	<u>Urban Areas</u>	<u>Total</u>
Teachers	107,000	66,000	173,000
Enrollment	2,171,000	3,341,000	5,515,000
Class rooms	83,868	34,152	118,000
Schools	37,900	4,100	42,000

3.32 There are still some villages without schools. As these figures suggest, the state of elementary education has been changing very rapidly and it is therefore difficult to reach conclusions on the basis of statistics which are even a few years old. Nevertheless, it is interesting to indicate which type of villages had no schools in the academic year 1970-71:

<u>Population Size</u>	(1) <u>Number of Villages</u>	(2) <u>Villages Without School</u>
Less than 250	8,812	3,258
251-500	13,042	1,144
501-1000	10,183	244
More than 1001	4,333	16

There are regional boarding schools serving the children of villages without schools. In 1975-76 enrollment in such schools was 26,880.

3.33 At the adult level, in addition to the adult education activities of the Ministry of Education (in 1977 expenditures were TL 866 million) all illiterate, or functionally illiterate, males are put through literacy programs at the beginning of their military service.

3.34 It is safe to conclude that, as far as education at the elementary level is concerned, the basic needs of the Turkish population are fully met. Improvement in student teacher ratios, maintenance and improvement of existing facilities and adding new schools to meet the needs of increasing population all appear within the scope of existing resource allocation patterns.

#### I. Social Security

3.35 An important social and economic consequence of the changes in the sectoral composition of employment has been the growth of the share of wage and salary earners in the total economically active population, which increased from 21.5% in 1963 to over 30% in 1974. Within agriculture, wage payments have been rapidly replacing other forms of remuneration, as a result of mechanization of farming and changing land tenure conditions. Closely related to these developments has been the increasing coverage of the social security system and the advance of the labor union movement.

3.36 In recent years there has been a very rapid increase in the number of people covered by social security and in the benefits provided. There are three major social security systems: the workers' insurance organization, the state pensions fund for public employees and the social insurance organization for artisans and self-employed. In 1976, 23.1%

of the economically active population was covered by a social security system. 1/ In sectors outside agriculture, this coverage has reached 53%. It has been estimated that insured persons with their children, spouses and other dependents make up about 40% of the total population. If migrant laborers in other countries are included, the figure goes beyond 42%.

3.37 Care of children who need institutional and/or special care; rehabilitation programs for the physically and mentally handicapped, and programs for the invalid are extremely limited. In the past, families or relatives were expected to take care of the aged and handicapped, but rapid urbanization and changes in family structures are creating new problems, Philanthropic organizations and voluntary activities are negligible. The state is expected to provide all the necessary help. Of about 500,000 presently in need of geriatric and special rehabilitative help, only 3,500 receive institutional help. A recent law provides financial help to citizens over 65 years of age who have no means of support. Appropriation for this purpose in the 1977 budget was TL3,252 million.

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1/ Social security coverage now extends to about 60% of wage and salary earners compared with 44% in 1963.



3.38 An important question is the feasibility of maintaining the recent rate of increase of the social security organizations. Most of the workers not covered are employed in agriculture, services and small-scale manufacturing. Their need for social security is much more pressing but the cost of extending the service to these unorganized and scattered workers is too high. Another important issue relates to the financial position of the social security organizations. At present, their funds are used in large part by the Government to finance the deficits of the State Economic Enterprises and in part to participate in luxury real estate and tourism projects. There are some doubts about the social security organizations' future financial solvency and about the appropriateness of the composition of their portfolio in relation to their objectives.

#### IV. Unresolved Problems

4.1 Turkey has an impressive record in its high growth rate and the degree of organization and scale of its efforts to make goods and services available for satisfying basic needs on a country-wide basis. But this picture will not be complete without a discussion of the problems which the past development strategy has either left unsolved or has even aggravated. Developments in employment and income distribution are the most striking examples of the insufficiency of this strategy. Other significant problems are those in agricultural development and in the lack of international competitiveness of Turkey's industrial goods despite the modern capital-intensive production technology used. It must also be emphasized that balance of payments difficulties, resulting from combinations of policy errors, reached crisis proportions in the late fifties and again in the late sixties, ending in political crises and abrupt political changes (1960 and 1971). At present another economic crisis is showing similar discomfiting signs.

##### A. Population and Employment

4.2 Turkey has a high population growth rate; its population increased from 13.6 million in 1927 to 42 million in 1977, more than trebling in fifty years. Following the establishment of the Republic, Turkey's official policy was to encourage population growth with a view to strengthening the country's international position and defense potential and improving the balance between the natural and human resources. However, since the inception of planned development in the early 1960s, the economic and social

problems attendant on rapid population growth have come to be seen as serious obstacles to economic development. The Population Planning Act was passed in 1965, but family planning has not yet been given its due importance in Government programs, although some efforts are being made to enlighten people about it. Social and economic changes (rising income levels, urbanization, higher literacy rate, increasing participation of women in the labor force, for example) have, however, helped to slow down the population growth rate, which had reached a peak of 2.85% between 1955 and 1960. The 1975 census showed that the population has been growing at 2.45% per year since 1970.

4.3 During the First and Second Plan periods, when the population in the 15-64 age group was growing at 2.4% per year, employment was growing at only 1.2%. As a result, despite a declining labor force participation rate, surplus labor <sup>1/</sup> rose from about 1 million people (8% of total labor supply) in 1962 to 1.6 million (11%) in 1972. Agricultural production was not expanding fast enough to provide employment to the growing rural labor force. While the surplus labor in the non-agricultural sectors increased threefold to 750,000 during 1962-72, that in the agricultural sector (in the peak season) went up by 100,000 to 850,000. Large numbers migrated to urban areas. The labor surplus would have been even greater had not a growing number of workers emigrated to West European countries for employment since 1963; their numbers reached 650,000 in 1972, compared to about 200,000 in 1967.

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<sup>1/</sup> This is defined as the difference between the labor supply and the demand for it. In the agricultural sector, it includes the excess labor at the peak harvest season; but in the non-agricultural sectors it appears mainly as a problem of severe under-employment rather than unemployment, as the people try to earn a living by doing any kind of work in traditional types of unproductive services.

Table 5: EMPLOYMENT AND LABOR SURPLUS, 1973-1977  
(thousand people of 15-64 years)

	1973	1974	1975	1976 <sup>1/</sup>	1977 <sup>2/</sup>
1. Total Labor Supply <sup>3/</sup>	14,670	15,150	15,600	15,990	16,380
2. Total Labor Demand	13,946	14,088	14,319	14,621	14,897
a. Agriculture <sup>4/</sup>	8,760	8,735	8,705	8,680	8,600
b. Non-agriculture	4,920	5,203	5,479	5,806	6,162
c. Unknown	130	130	130	130	130
d. Emigrating Workers	136	20	5	5	5
3. Surplus Labor in Non-Agriculture	724	1,062	1,281	1,369	1,483
4. Surplus Labor in Agriculture <sup>5/</sup>	840	800	750	710	700
5. Total Labor Surplus	1,564	1,862	2,031	2,079	2,183
6. Surplus Labor Ratio (%):					
Total (5/1)	10.7	12.3	13.0	13.0	13.3
Agriculture (4/2.a)	9.6	9.2	8.6	8.2	8.1
Non-agriculture $\frac{1/3}{(2.b+3)}$	12.8	17.0	20.0	19.1	19.4

<sup>1/</sup> Provisional

<sup>2/</sup> Program targets

<sup>3/</sup> Excluding military personnel and the workers abroad.

<sup>4/</sup> Includes those substantially underemployed even at the peak season.

<sup>5/</sup> Imputed labor surplus, which the sector can dispense with even at the peak season.

Source: SPO, the 1977 Annual Program, Table 220.

4.4 Unemployment and underemployment have grown even worse during the Third Plan period (Table 5). The surplus labor ratio for the whole economy increased to 13% in 1975-1976 and for the non-agricultural sector it was 19 to 20%. The fact that the outflow of Turkish migrant workers dwindled almost to nothing after 1973 has contributed considerably to the rapid increase of excess labor in the non-agricultural sector.

### B. Agricultural Incomes

#### Land Distribution

4.5 In 1955 there were fewer than 250,000 landless laborers in agriculture (2.6% of total agricultural employment). By 1970, their number had doubled (5.4%) and now they probably number more than a million (11%). <sup>1/</sup> While in 1963 9% of households were landless, in 1973 more than 22% of agricultural households were without land and about 20% of households owned less than 3% of the total land, each holding 10 decares or less. Thus, 42% of agricultural households were either landless or had inadequate land in 1973. This rise in the numbers of landless was accompanied by a decline in the share of total agricultural land held by the 20% of households owning 10 decares or less -- from 6% to less than 3% (Table 6).

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<sup>1/</sup> SPO, Rural Welfare Policies, (in Turkish), Publication No. 1587, June 1977, p.107.

Table 6: DISTRIBUTION OF LAND, 1963 and 1973  
(percentage)

Land Holdings (decares)	1963 <sup>1/</sup>		1973	
	Households	Land	Households	Land
Landless	9.14	0.00	22.37	0.00
1 - 5	11.06	2.87	10.13	0.80
6 - 10	10.66	3.16	9.61	1.91
11 - 50	38.61	21.93	36.87	23.90
51 -100	15.88	21.41	14.97	39.51
101-500	11.08	36.69	5.43	19.83
501+	0.47	10.28	0.62	14.03

<sup>1/</sup> Percentages do not add to 100 because the distribution does not cover 3.66% of total farm land cultivated on a rental or sharecropping basis by 3.1% of households.

Sources: T. Bulutay, S. Timur, and H. Ersel, Income Distribution in Turkey, 1966, published by the University of Ankara, 1971; and, SPO, Land Distribution, 1973, in progress.

4.6 In 1963 the households holding more than 10 hectares each formed 11.5% of the total, and owned 53% of total land, while by 1973 their shares had declined to 6% of the number of households and 34% of total land. There is now a concentration of land in the 5.1-10 hectare group: almost 40% of the agricultural land, owned by 15% of households, was in holdings of that category in 1973, whereas in 1963 the corresponding ratios were 21% and 16%. This development, which can be considered favorable from the standpoint of efficient farming, may have resulted partly from the consolidation of small holdings and partly from the distribution of large family holdings among the family members in order to hedge against a possible land reform.

A change closely related to these shifts in land concentration has been the increasing importance of cultivation on a rental or sharecropping basis. The number of households who cultivated others' land as tenants or sharecroppers increased from 903,000 in 1963 (26% of all farm households) to about 1.1 million (34%) in 1973, but more significantly the average size of holding cultivated by each household in this group increased from 2.7 hectares to 5.1 hectares.

#### New Technology and Farm Size

4.7 The use of tractors and fertilizer and the irrigated area have been sharply increasing for the last decade and a half. The number of tractors trebled during 1962-1972, and has grown even faster since then, with the expansion of domestic manufacturing capacity. The total amount of chemical fertilizer used in 1976 was over 4.5 million tons, compared to only 0.3 million tons in 1962. Even so, only about one-third of the total cultivated area (excluding the part left fallow) is fertilized currently and most of this is on large holdings: an SPO study has shown that the farm units cultivating more than 10 hectares each account for 11% of the total number of farm units, but account for 55% of the total volume of fertilizer used <sup>1/</sup>. The irrigated area doubled between 1962 and 1976, reaching 2.3 million hectares in 1976. However, irrigation still covers less than 9% of the cultivated area (including fallow land) and only about one-quarter of the area potentially suitable for irrigation. In the areas covered by the state irrigation schemes, 34% of the land belongs to 4% of the households, with some of them having holdings as large as almost 3,000 hectares.

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<sup>1/</sup> The Annual Program for 1977, para.771, Resmi Gazete, No.15786.

### Agricultural Price Policies and Subsidies

4.8 Turkey has an extensive system of agricultural subsidies and price supports. Although a careful study would be needed to assess how far these measures have been meeting their objectives, we may here recall that (i) the growth of agricultural output over the last decade and a half was only slightly above the population growth and (ii) the inequalities in the distribution of agricultural income and land have grown worse. There have also been sharp year-to-year fluctuations in agricultural value added.

4.9 A substantial proportion of farmers produce primarily for home consumption (an estimated 50% of gross agricultural output does not enter market channels), relying on off-farm work and/or remittances from family members working abroad for the income that they need for cash purchases. Only farmers who can be classified as "commercial farmers" are really benefitted by increasing price supports.

4.10 An SPO study of support prices shows that the benefits accruing to small farmers from support prices are minimal. For example, 41% of the wheat marketed in Turkey is produced by only 3% of the agricultural families (55,000 households); in cotton 4% of the farmers provide 35% of the total supply, and in sugar beet 2% produce 31% of the crop. As a result of the price support policies in sugar beet, in 1973 50% of the producers, who have holdings of less than 0.5 hectares, received incomes from the crop of TL 3,527 per family, whereas families with more than 100 hectares received TL 134,984 each. Again in 1973, while income from cotton for families with holdings of less than 0.5 hectares was TL 7,900,



it was TL 1,244,250 for families with holdings of between 500-1000 decares. The bottom 25% of families received 6% of total earnings when the top 25% received 58%.

4.11 Not only do support prices have minimal effects on incomes of small farmers; in many cases they are not available at all. Since support prices are announced after the crop becomes available, small farmers cannot benefit if economic conditions have already forced them to make advance sales of their crops. In fact, because commodity price increases tend to widen wealth disparities between the rich and poor farmers, the policy of increasing the support price by as much as 30% per year since 1970 reduces the possibility that poor farmers with small land holdings will be able to improve their relative income position.

4.12 Similarly, subsidies to agricultural inputs also benefit mostly the big landowner rather than the small farmer whose need for such assistance is much more pressing. Despite the ten-to-fifteen fold increases in the land values resulting from the state irrigation schemes, no betterment tax is imposed on the owners. (A third of the land improved by these schemes is owned by large farmers). In the case of the fertilizer subsidy, to cite another example, of the TL 5 billion burden it imposed on the budget in 1976, TL 2 billion benefitted 160,000 large farmers who form 4% of total agricultural households. A complete overhaul of agricultural price and subsidy policies is long overdue.

Credits

4.13 About 65% of the total agricultural credit comes from institutional sources. As shown below, institutional credit amounts to virtually a third of the value added in agriculture.

Table 7: INSTITUTIONAL CREDITS FOR AGRICULTURE  
TL

	1970	1974
New loans	6,550,774	22,715,605
Loans outstanding and not due	7,871,590	23,817,463
Overdue credits	1,157,931	3,915,059
Credits under litigation	1,512,711	1,282,440
Value added in agriculture	38,338,100	162,838,100

Non-institutional sources, including merchants, large farmers and money lenders supply the balance at much higher interest rates (reportedly ranging between 25% to 50%) usually to the poorer farmers, who are unable to get institutional credits. The law on the establishment of the Agricultural Bank, the largest agricultural credit institution, specifies that small farmers should be favored in the distribution of credit and that the necessary administrative facilities should be provided to serve them. However, as a result of strict application of collateral requirements it is believed that less than half of Turkey's 3.1 million farmers have access to institutional credit.<sup>1/</sup>

1/ IBRD, Turkey Agricultural Sector Survey - July 1977,  
Report NO.1684-TU.

C. Income Distribution

4.14 Income distribution in Turkey is highly unequal and there are indications that it is getting worse. This clearly shows that efforts to meet basic needs without institutional and structural changes, whatever their magnitude, have not prevented a worsening in the position of the poor. In 1973, households with annual incomes below TL 5,000 made up 12.2% of the total number of households (6.9 million) but received only 1.6% of the total income (Table 8). 72.5% of the total households had annual incomes less than TL 25,000 and received just 35% of total income. On the other hand, those with incomes of TL 200,000 and more were only 0.6% of households but enjoyed

Table 8: DISTRIBUTION OF INCOME BY INCOME GROUP, 1973

Income Groups (TL per yr.)	Households (%)		Income (%)	
	Simple	Cumulative	Simple	Cumulative
0 - 2,500	4.1	4.1	0.3	0.3
2,500 - 5,000	8.1	12.2	1.2	1.3
5,000 - 10,000	17.8	30.0	5.4	6.9
10,000 - 15,000	20.0	50.0	10.1	17.1
15,000 - 25,000	22.5	72.5	17.9	35.0
25,000 - 50,000	18.1	90.6	25.4	60.4
50,000 - 100,000	6.8	97.4	18.6	79.0
100,000 - 200,000	1.9	99.3	10.8	89.8
200,000+	0.6	100.0	10.2	100.0

Source: SPO, Income Distribution, 1973. SPO Publication No. 1495, Ankara 1976.

10.2% of the total income. An equally disturbing point is that income inequality has worsened since the beginning of development planning. Comparing 1973 with 1963, the income share of the lowest earning quintile of households declined from 4.5% to 3.5% and that of the next quintile of households from 8.5% to 8%.

4.15 The greatest inequality of income distribution is found within villages with a population of 2,000 or less, and in large cities. This is the case for Turkey as a whole, as well as for each region individually. In villages 2.8% of total income was shared among almost a fifth of the total households, while more than 18.3% of income went to only 2% of the households. The largest occupational group in villages is farmers, making up 74% of the total households; they are followed by laborers (12%) and artisans (7%). The great income inequality in villages is therefore explained by the large income disparities within the farming occupation, which basically reflect the pattern of land tenure. In fact, the SPO's 1973 Income Distribution Study found that the inequality was much higher among farmers than within other occupations.

4.16 Looking at the regional differences in income distribution, the poorest region, East Anatolia, where 14.7% of the total households live, received 9.9% of total income in 1973. By contrast, the three metropolitan areas of Istanbul, Ankara and Izmir together accounted for 22.3% of total income, compared to their share of 14.8% in total number of households. The income shares of other regions were similar to their shares in total population.

The Karadeniz region had the highest level of average income (TL 26,800) and East Anatolia the lowest (TL 16,700). Although it is normal for average incomes to be higher in metropolitan areas, the discrepancies were very large: 1973 average income in Ankara was TL 30,500, and in Istanbul and Izmir, about TL 40,000.

4.17 In governmental policies the distribution of income is handled as a question of regional differences. Efforts to eliminate regional differences through allocation of investments and services have little impact, if any, on income distribution between socio-economic groups.

V. Objectives of Future Policies and  
a Possible Action Program

5.1 In Turkey, a middle income country where basic needs have either been met or are in the process of being met in the very near future, at a rudimentary level in certain respects, and at higher levels in other respects, a development strategy designed "towards the objective of meeting basic needs" has no meaning. The strategy needs to be directly poverty-oriented to bring about an improvement in the quality of services and equity in their allocation, as well as a productive structure capable of sustaining them.

5.2 A poverty-oriented strategy would:

- have a better answer to the question of employment;
- slow down urbanization by reducing the push of rural areas (through improvements in land tenure, services, etc.);
- increase productivity in small-scale enterprises both in agriculture and in other sectors;
- increase efficiency in the use of resources allocated to poverty-alleviating activities;
- reduce the inflationary pressures which have contributed to the deterioration of income distribution.

None of these problems has an easy answer. Difficulties are only partially conceptual or strictly economic: the issues are mostly political. Even those who in an equitable and more rational distribution of resources and services would receive much more than they get in the present situation, will join forces with those who oppose change out of fear of losing what little they now have.

5.3 The efficiency of capital utilization is poor. Public investments have an extremely long gestation period, since there are too many new starts in response to political pressures. An intensive effort to complete projects already started before new investments are undertaken will significantly improve the efficiency of capital at the macro level.

5.4 The magnitude of the employment problem has intimidated all planners and other policy makers in Turkey and the demand for labor from abroad provided a temporary relief. Employment was basically treated as a dependent variable rather than as a policy variable. It is quite obvious that in the long run the answer is in population control, but in the short and medium run the economy's performance in creating employment needs to be different. High growth rates are necessary but not enough: a careful review of policies affecting the choice of techniques and employment, and of the composition of planned investments, is necessary to formulate more effective employment policies.

5.5 Land reform in the rural areas is essential both to increase agricultural production and to slow down the speed of urbanization. There is another particularly serious problem, to which land reform can be the only solution: even today, in the 1970's, there are 727 villages which are owned by large landowners. People in these villages have no rights to the lands they cultivate or to the houses they live in. In such circumstances, no matter what the statistics show, it is highly questionable whether basic needs can be considered met.

5.6 A full-scale study of the distribution of benefits from poverty-oriented public expenditures, and the cost-effectiveness of these expenditures, is very necessary. It is also necessary to

explore ways in which the idea of center villages for the installation of public services could be made more acceptable and a long-term implementation program could be developed.

5.7 Shelter and energy problems will continue to persist. In energy, especially energy for heating and cooking, underutilization of lignite is inexcusable. Several attempts to expropriate private lignite reserves, or pass legislation which would make it very expensive not to fully utilize these reserves, have failed. Another attempt is necessary. It would improve the living conditions of people who are forced to use dung for heating and cooking and increase agricultural productivity by letting them use the dung as fertilizer. Switching from dung to lignite in low income areas may require subsidies which need to be carefully calculated and planned for.

5.8 Improvement of financial markets and credit policies is important. A serious effort will be necessary both to depoliticize the allocation of credits, and to improve the efficiency of operations.

5.9 The beginning of a new Plan period (1978) is a very good time to review the strategy and associated policies so as to avoid the mistakes of the past. This of course requires, to begin with, a recognition of the shortcomings in the present situation. The scope for action will be seriously limited unless the political leadership collectively adopts at least a medium-term and preferably a longer term view towards the solution of these questions.



BASIC NEEDS OF THE TURKISH VILLAGE  
AS SEEN BY VILLAGERS

With a view to identifying major characteristics and problems of the rural population in Turkey, the State Planning Organization (SPO) has been undertaking various research projects on social and economic conditions and value patterns of the rural population and the effect of government policies on them. One of the most important of these projects is "A Study of the Modernization Tendencies in the Turkish Village" <sup>1/</sup> which was based on a survey, in August/September 1968, of 5,244 villagers in 220 villages.

The survey was taken through personal interviews of 24 individuals from each village. The villages and individuals to be sampled were selected so as to be representative of each village's social structure, as well as the rural structure of Turkey revealed by the 1965 Census. In addition to these individuals, in each sample village the village headman, the priest and the teacher were also interviewed.

The following tables of the study indicate what the villagers regarded as their basic needs by 1968. They show the villagers' answers to the following questions:

- (a) What is the most important problem, grievance (suffering) or difficulty of your village today? (Table 1)
- (b) What is the most important thing that the villagers here could jointly do to help with the development of the village? (Table 2)
- (c) For the development of your village, what do you think the Government should do most urgently? (Table 3)
- (d) What is the most important thing that you need to increase your own income and improve your standard of living? (Table 4)

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<sup>1/</sup> A. Tugac et. al., (Social Structure Research Group of the SPO), Turk Koyunde Modernlesme Egitimleri Arastirmasi, Ankara 1970, SPO Publication No. 860, page 290.

- (e) The village headman was asked the following two questions (Table 5 brings together the answers to both questions):
- (i) What are the most important problems of your village?
  - (ii) What are the other requirements for a rapid development of your village?
- (f) The following question was put to the village teachers (193 villages out of the 220 included in the sample had primary schools, and the answers were received from 162 of them): What do you think should be done to develop your village and raise the living standard of the villagers? (Table 6)

Table 1: Most basic needs of villages by agricultural region  
as identified by villagers themselves.

<u>Agricultural Region</u>	<u>Water</u> (%)	<u>Road</u> (%)	<u>Electricity</u> (%)	<u>Land</u> (%)	<u>School</u> (%)	<u>Others</u> (%)	<u>None</u> (%)	<u>No Response</u> (%)	<u>Persons Interviewed</u>
Aegean	34.2	17.0	16.3	3.1	0.8	13.0	5.9	9.7	713
Marmara	17.9	14.9	11.2	7.4	0.7	20.3	6.1	21.5	409
Center-North	24.1	25.9	10.3	5.7	4.9	13.2	3.4	12.5	814
Mediterranean	19.7	16.0	4.9	7.8	0.9	18.5	9.3	23.5	550
Black Sea	26.3	29.8	3.3	2.0	1.5	24.3	7.8	5.0	885
Center-South	28.9	10.3	5.6	5.9	2.9	20.1	6.1	20.2	409
East-North	17.2	18.9	1.0	3.5	4.2	20.6	9.0	25.6	402
East-South	30.7	28.3	1.4	17.7	8.1	9.2	1.8	2.8	566
Center-East	26.4	25.4	2.8	2.6	5.2	17.3	10.1	10.3	495
TOTAL	25.6	21.9	6.7	5.9	3.2	17.3	6.4	12.9	5,244

Table 2: Basic needs that villagers could meet themselves.

<u>Work</u>	<u>Persons Interviewed</u>	<u>(%)</u>
Road	1,116	21.3
Water	977	18.6
Electricity	259	4.9
School	224	4.3
Cooperatives	120	2.3
Others	840	16.0
None	747	14.3
Don't Know	934	17.8
No Response	27	0.5
<b>TOTAL</b>	<b>5,244</b>	<b>100.0</b>

Table 3: Basic needs for which Government help is expected

<u>Works</u>	<u>Persons Interviewed</u>	<u>(%)</u>
Road	1,063	20.3
Water	1,034	19.7
Electricity	475	9.1
School	265	5.0
Others	1,842	35.1
Don't Know	560	10.7
No Response	5	0.1
<b>TOTAL</b>	<b>5,244</b>	<b>100.0</b>

Table 4: Villagers' most important requirement to increase their incomes.

<u>Requirements</u>	<u>Persons Interviewed</u>	<u>%</u>
Purchasing land	1,134	21.6
Capital and credit	922	17.6
Modern inputs and new crops	448	8.5
Profitable trade and craft	299	5.7
Water for irrigation	270	5.2
General farm improvement	250	4.8
Livestock	237	4.5
Others	836	15.9
Don't know	820	15.7
No response	28	0.5
<b>TOTAL</b>	<b>5,244</b>	<b>100.0</b>

Table 5: Most important problems and needs as seen by village headmen.

<u>Problems and Needs</u>	<u>No. of Villages</u>	<u>(%)</u>	<u>1/</u>
Water	184	83.7	
Road	178	80.9	
Electricity	82	37.3	
Modern farming equipment and methods	75	34.1	
Lack of school	59	26.8	
Inadequate land and grazing area	43	19.5	
Irrigation	39	17.7	
Other problems relating to education & training	33	15.0	
Credit	30	13.6	
Health requirements	25	11.4	
Cooperatives	24	10.9	
Floods	19	8.6	
Animal husbandry	17	7.7	
Non-farm employment	10	4.6	
None	2	0.9	
Others	179	81.4	

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1/ Percentages are on the basis of total number (220) of villages in the sample.

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Table 6: Requirements for village development as seen by village teachers

<u>Requirements</u>	<u>Persons Interviewed</u>	<u>(%)</u>	<u>1/</u>
Road	62	38.3	
Water	50	30.9	
Increasing productivity with modern inputs and methods	50	30.9	
Improving education	45	27.8	
Training for craftsmanship	27	16.7	
Providing land and grazing area	20	12.4	
Electricity	19	11.7	
Extending credit	15	9.3	
Providing non-farm employment	12	7.4	
Animal husbandry	12	7.4	
Others	61	37.7	

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1/ Percentages are based on the total number of teachers (162) who responded to the question.

The Supply of Public Services to Villages  
and Allocation Criteria

1. According to the 1970 Population Census, there are 35,995 villages and sub-districts with a total population of 21.9 million. Over one-third of this population live in 12,337 "dispersed villages" (daginik koy) which altogether have 34,470 other inhabited places attached to them. The total number of settled places outside municipal boundaries of province and district centers (639 in number with a total population of 13.7 million in 1970) was thus just over 70,000 in 1970.

2. The supply of public services to this very large number of settled areas is the responsibility of Ministries and the organizations attached to them. Considering the need to identify the criteria used in the provision of public services to villages and to coordinate the similar programs of various Ministries, the Social Planning Department of the SPO prepared a report on these issues in 1971. <sup>1/</sup> Thirty-three Ministries and organizations were questioned about the types of services they deliver to villages, the coordination within and among the organizations, and the criteria they use in allocating the services. The following is a list of the services, the criteria used, with some statistics on the extent of services provided to the villages in different areas.

A. Types of Public Services to Villages

3. The report identified 67 services of rather general type. Some of these services, however, were considered of secondary importance and some were difficult to find data for. Also, three services: adult education courses, workshop programs for forest villages, and special training courses in animal husbandry for forest villages, were not working at all. Excluding these, the services can be grouped in nine categories.

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<sup>1/</sup> A. Yücel and B. Gürer, Köye Gotürülen Hizmetlerde Kullanılan Kıstaslave Hizmet Koordinasyonu (criteria used in the supply of public services to villages and the coordination of services), SPO Publication No. 1120, November 1971.

Agricultural Services:

- (a) Training farmers for grazing land improvement and for growing seedlings and seed grains;
- (b) Establishing permanent and mobile veterinary stations;
- (c) Meeting the breeding stock requirements;
- (d) Fighting agricultural diseases and pests;
- (e) Supplying farmers with seeds, breeding animals, seedlings, agricultural machinery and equipment, fertilizer and pesticides.

Land-related Services

- (a) Distribution of State land to the farmers without adequate land for farming and grazing;
- (b) Land improvement and terracing;
- (c) Opening farmers' training camps to promote land and water conservation;
- (d) Forming cooperatives for efficient use of small irrigation systems;
- (e) Land consolidation.

Education and Training Services

- (a) Opening primary schools in villages;

- (b) Establishing district boarding schools for primary education;
- (c) Opening intermediate schools in large villages;
- (d) Basic adult education.

Health Services

- (a) Socialization of health services and opening of health centers and health rooms;
- (b) Establishing child care centers and maternity homes;
- (c) Family planning services;
- (d) Fighting against tuberculosis and malaria.

Infrastructure Services

- (a) Supplying potable water;
- (b) Providing electricity;
- (c) Constructing village roads.

Marketing and Financing

- (a) Opening handicraft training courses;
- (b) Providing equipment and credit for handicrafts and promoting their marketing;
- (c) Giving financial support to small businesses owned by village communities;
- (d) Services for the development of villages in forested areas (i.e., research, programming, financing, coordination, follow-up and evaluation);
- (e) Providing subsidies and technical assistance to Village Development Cooperatives for project preparation and implementation;



- (f) Extending credit to agricultural cooperatives;
- (g) Giving general purpose credits to farmers;
- (h) Procurement of certain agricultural products  
(mainly wheat and some other grains) to support  
producers' prices.

Services to Forested Areas

- (a) Preventing soil erosion;
- (b) Consolidation of villages;
- (c) Giving development loans to the poor and dispersed  
villages;
- (d) Improvement of grazing areas.

Communication Services

- (a) Establishing post offices;
- (b) Maintaining roving postal agents.

Administrative Services

- (a) Providing cadastral services;
- (b) Establishing gendarmery stations or linking the  
villages by phone to the nearest gendarmery station.

B. Criteria for Allocation of Public Services

4. The responses to the survey questionnaires revealed that the public agencies used 16 major criteria in allocating their services to villages. These are shown below. The survey imputed the importance of each criterion from the frequency with which it was mentioned in the responses.

5. The SPO study suggested that purely political factors and villagers' demand should be excluded from the allocation criteria. It also argued that some of the criteria could be expanded to incorporate other related ones, and thus proposed 10 major standards as shown below.

<u>Order of Priority</u>		<u>Criteria</u>	<u>Frequency of Citation in Survey Responses</u>
<u>Revealed by Survey</u>	<u>Suggested by SPO</u>		
1	1	Population	13
2		Political factors (Government's discretion)	13
3		Villagers' demand	9
4	2	Degree of underdevelopment	8
5	3	Adequacy of means of communication	8
6		Being in a forested area	7
7	4	Availability of construction land	7
8	5	Villager's participation	7
9		Presence of cooperatives	5
10		Number of students	5
11		Suitability of land conditions	4
12	6	Existence of a school	4
13	7	Suitability for tourism	4
14	8	Volume of production	3
15	9	Lack of a previous service in the same field	3
16	10	Marketing potential	3
			100

C. Allocation of Some Public Services

6. The SPO study gives some statistics for 1966-68 on the allocation of 21 services by province, including the number of villages that received each service, the cost of the service per village, and the share each province received of the total Government expenditure on that service. Table II.1 presents such information for some of the 21 services in selected provinces. The services were selected so as to include those relating to productivity increases, infrastructure and health improvement. In the selection of the provinces included in the table, the purpose was to have a sample representing different regions with different levels of development. In ordering the provinces by the level of development, we used the "Composite Index of Social and Economic Development by Province, 1970" prepared by the SPO.

D. An Index of Social and Economic Development of Provinces

7. The Third Five-Year Development Plan (1973-77) required the identification of each province's natural and human resources that may have good potential for development. It also introduced a system of indices, whereby provinces can be ranked according to their level of socio-economic development, to establish priorities for the allocation of public funds and to identify regional development and incentive policies. The research in the SPO on socio-economic indexes for provinces, which goes back to 1963, 1/ resulted in the development of a composite index comprising 53 individual indicators of social and economic development. The composite index and its components, given in Tables II.2 and II.3, have been used in the Annual Programs since 1973.

8. The SPO's concern with social as well as economic indicators of regional development has continued with a series of studies on the development potential of various lagging

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1/ Some of the reports (all in Turkish) that the Social Planning Department of the SPO has on the subject are: An Index of Socio-Economic Development of Provinces, 1963-1967, SPO Publication No. 900; the same revised for 1963-70, SPO Publication No. 1282; A Methodological Study (Taxonomy) to Determine the Levels of Development of Provinces, SPO Publication No. 1252, and Determining the Provinces with Development Priority and Incentive Measures for Such Provinces, SPO Publication No. 1304.

TABLE II.1: ALLOCATION OF SOME PUBLIC SERVICES TO VILLAGES IN SELECTED PROVINCES, 1967-69

Provinces	Total No. of Villages	Land Improvement 1/		Handicrafting Aid 3/		Village Rosary			Potable Water			Electricity	Tuberculosis		Malaria	
		Villages 2/	Expenditure per Village (000 TL)	Villages	Expenditure per Village (000 TL)	Villages Reached 4/	Villages	Expenditure per Village (000 TL)	Settlement Units Already Reached	Village	Expenditure per Village (000 TL)	Villages	Villages	Expenditure per Village (000 TL)	Settlement Units Already Reached	Expenditure per Village (000 TL)
Istanbul (0.61597) 5/	263	10	237	0	0	260	17	507	139	57	481	6	307	3,507	276	51,541
Eskişehir (0.86475)	397	17	275	11	6.3	262	15	631	193	77	103	52	460	517	412	237
Trabzon (0.86740)	588	5	251	20	5.5	228	22	652	786	360	71	30	821	935	621	104
Muğla (0.88586)	795	16	253	4	5.0	204	6	1,424	79	63	253	2	496	759	430	622
Niğde (0.90315)	288	19	444	10	7.4	191	16	647	138	95	179	26	314	194	321	200
Kars (0.91003)	786	6	411	11	8.1	150	10	1,013	161	35	711	33	1,535	241	822	97
Bilecik (0.91993)	648	10	2,185	2	4.0	177	6	1,233	249	373	132	2	985	234	667	256
Bingöl (0.97070)	324	4	158	3	3.3	42	2	3,112	459	190	20	1	633	239	327	598

1/ Soil conservation, improvement and terracing.

2/ The "villages" columns indicate the number of villages which benefited from the service in question during 1967-69.

3/ Providing the villagers with equipment and financing for handicrafting.

4/ The "Villages Already Reached" columns show the number of villages which had received the service in question by and 1966.

5/ Composite index of social and economic development (Istanbul is the most, and Bingöl the least, developed province).

provinces and regions. 1/ It has also carried out, as a continuation of earlier work on socio-economic indexes of spatial development, a survey of all cities, districts and over 36,000 villages with a view to studying the priority ordering of all settlement units. The results of this survey are fed into a data bank and, in their still rough forms, helped the SPO in the regional allocation of public expenditure, project selection and in general macroeconomic analysis.

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1/ These recent studies are enumerated in the Annual Programs for 1975-77 in paragraphs dealing with Regional (Yersel) Planning.

Table II.2: COMPOSITE INDEX OF SOCIAL AND ECONOMIC  
DEVELOPMENT BY PROVINCE, 1970 /1

Rank	Province	Index	Rank	Province	Index
1	Istanbul	0.61597	34	Erzincan	0.88705
2	Ankara	0.68004	35	Çanakkale	0.89066
3	İzmir	0.72047	36	Kırşehir	0.89096
4	Adana	0.79167	37	Giresun	0.89112
5	Kocaeli	0.81140	38	Denizli	0.89257
6	İçel	0.82580	39	Bolu	0.89286
7	Bursa	0.83706	40	Artvin	0.89929
8	Eskişehir	0.84475	41	Uşak	0.90085
9	Konya	0.84583	42	Siirt	0.90186
10	Kayseri	0.84733	43	Niğde	0.90315
11	Balıkesir	0.84971	44	Afyon	0.90497
12	Rize	0.85035	45	Çorum	0.90959
13	Zonguldak	0.85156	46	Kars	0.91003
14	Hatay	0.85520	47	Çankiri	0.91200
15	Sakarya	0.85669	48	Sivas	0.91308
16	Gaziantep	0.85823	49	K.Maraş	0.91369
17	Aydın	0.86448	50	Diyarbakır	0.91447
18	Trabzon	0.86740	51	Bitlis	0.91465
19	Antalya	0.86959	52	Bilecik	0.91808
20	Samsun	0.87006	53	Urfa	0.91993
21	Nanisa	0.87027	54	Tokat	0.92292
22	Isparta	0.97060	55	Kastamonu	0.92545
23	Tekirdağ	0.87119	56	Gümüşhane	0.92606
24	Edirne	0.87398	57	Van	0.92870
25	Kütahya	0.87720	58	Ordu	0.92943
26	Elazığ	0.87873	59	Tunceli	0.93655
27	Amasya	0.88094	60	Sinop	0.93758
28	Malatya	0.88211	61	Ağrı	0.94250
29	Kirklareli	0.88285	62	Yozgat	0.94710
30	Nevşehir	0.88484	63	Mardin	0.95087
31	Muğla	0.88586	64	Adiyaman	0.95195
32	Erzurum	0.88640	65	Muş	0.95428
33	Burdur	0.88656	66	Hakkâri	0.96773
			67	Bingöl	0.97070

/1 The composite index measures the distance between each province and a hypothetical province with index 0, which would score highest (or lowest depending on the indicator) with respect to the 53 indicators making up the composite index and listed on the following pages.

Source: State Planning Organization.  
This index and its components are also reproduced in IBRD, Turkey: Prospects and Problems of an Expanding Economy, February 1975, Tables 11.7 and 11.8].

Table II.3: FIFTY-THREE INDICATORS OF SOCIAL AND ECONOMIC DEVELOPMENT BY PROVINCE /1

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Industrialization

1. Programmed investment in mining & manufacturing over total programmed investment, 1963-70.
2. Programmed investment per capita, 1963-70.
3. Electric power consumption by manufacturing, 1969.
4. Value added per worker in manufacturing.
5. Input-output ratio in manufacturing.
6. Unskilled labor as percent of total labor in manufacturing.
7. Value added per establishment in manufacturing.

Agricultural modernization and development

8. Agricultural output per capita.
9. Irrigated area as proportion of total cultivated area.
10. Cultivated area per ton of fertilizer consumed.
11. Meat and milk output per capita.
12. Amount of cooperative credit per member.
13. Agricultural credit per head of agricultural population.
14. Average size of farm units.
15. Gross value of agricultural output.
16. Agricultural output per hectare.
17. Gini concentration ratio.
18. Cultivated area per tractor.

Finance and commerce

19. Receipts from transaction tax on banking and insurance per provincial branch.
20. Number of bank accounts over total population.
21. Amount of demand deposits per bank account.
22. Commercial credit per capita.
23. Transfers from central government per capita.
24. Income tax receipts per head of population in industry and services.
25. Local government revenue per capita.
26. Receipts from income tax on banking.

Social and cultural development

27. Population over number of radios.
28. Electric power consumption for lighting over municipal population.
29. Legal documents and cases per capita.
30. Total population over population covered by social security.
31. Number of newspapers sold.
32. Number of parks, hotels and restaurants.
33. Construction in square meters according to permits.

Table II.3: FIFTY-THREE INDICATORS OF SOCIAL AND  
ECONOMIC DEVELOPMENT BY PROVINCE (continued)

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Health situation

- 34. Population over reported number of contagious diseases.
- 35. Population per doctor.
- 36. Occupation ratio of hospital beds.
- 37. Number of hospital calls per capita.
- 38. Programmed investment in health per capita, 1963-70.
- 39. Population per drugstore.
- 40. Population per vaccination.

Education

- 41. Literates as proportion of population 6 years and older.
- 42. Population age 7 to 11 per teacher in primary education.
- 43. Programmed investment per capita in education.

Demography

- 44. Population density, 1970.
- 45. Population in cities of more than 10,000 over total, 1970.
- 46. Population growth rate, 1960-70.
- 47. Population per housing unit.
- 48. Death rate.

Transportation and communication

- 49. Population per motor vehicle.
- 50. Area per kilometer of roads.
- 51. Number of communications per capita.
- 52. Population per telephone.
- 53. Ton-kilometers of transport.

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1 Indicators making up the composite index in Table II.2.

Source: State Planning Organization.



GENERAL BUDGET EXPENDITURES ON BASIC NEEDS BY MINISTRY, 1977  
(million TL)

<u>Ministries</u>	<u>Total</u>	<u>Rural</u>	<u>Rural/ Urban</u>	<u>Urban</u>
<u>Village Affairs</u>	11,703	11,703		
Village Roads (purchase of machinery, construction and maintenance of roads and bridges, maintenance of machinery and social buildings, assistance to local administrations for village roads)	(3,997)	(3,997)		
Village Drinking Water (same types of services as for village roads)	(2,662)	(2,662)		
Village Electrification (TL2,140 m. are being appropriated from the Finance Ministry's Budget)	(65)	(65)		
Development of Land and Water Resources (various irrigation works; on-farm improvement works; purchasing of machinery, equipment, spare parts; soil conservation, river-bed improvement and drainage works; research; project preparation, land surveying and technical assistance to villages, and others)	(3,255)	(3,255)		

<u>Ministries</u>	<u>Total</u>	<u>Rural</u>	<u>Rural/ Urban</u>	<u>Urban</u>
Cooperatives and Handicrafting Development (the village cooperatives support fund; grants and credit to invest- ment projects of cooperatives; project preparation; training, research and support services for village handicraft works)	(845)	(845)		
Land and Settlement Services (various settlement projects; resettlements; village develop- ment centers and social buildings, and others)	(879)	(879)		
<u>Agriculture</u>	3,723	3,723		
Agricultural Education, Training and Publication	(1,901)	(1,901)		
Research and Campaign Against Pests and Diseases	(411)	(411)		
Livestock (production, improve- ment, training and veterinary services)	(1,308)	(1,308)		
Fishery	(103)	(103)		
<u>Forestry</u>	447	447		
Erosion Control and Grazing Land Improvement	(322)	(322)		
Forest Villages Development Services	(125)	(125)		
<u>Culture</u>	71	71		
Library Services	(71)	(71)		
<u>Prime Ministry</u>	1,400	1,400		
Land Reform	(1,107)	(1,107)		
Cadastral Works	(293)	(293)		

<u>Ministries</u>	<u>Total</u>	<u>Rural</u>	<u>Rural/ Urban</u>	<u>Urban</u>
<u>Health and Social Welfare</u>	2,805	1,530	1,275	
Campaign Against Contagious Diseases (697)			(697)	
Eradication of Malaria, Trachoma, and TB	(513)	(316)	(197)	
Genital Diseases	(25)		(25)	
Family Planning	(47)		(47)	
Maternity and Child Care	(180)		(180)	
Socialization of Health Services	(499)	(499)		
Construction of Health Centers	(605)	(605)		
Social Assistance (to the poor, and to the homeless elderly and children)	(129)		(129)	
Buildings for Social Services	(110)	(110)		
<u>Industry and Technology</u>	1,270			1,270
Establishment of Industrial Sites for Small-Scale Industries and Crafts	(1,200)			(1,200)
Fund to Assit the Cooperatives of Small Craftsmen	(35)			(35)
Fund to Assist Small Manufacturers	(35)			(35)
<u>Tourism and Information</u>	121	121		
Roads and Other Infrastructure to Touristic Rural Areas	(121)	(121)		
<u>Reconstruction and Settlement</u>	2,435		52	2,383
Construction of Public Houses in Underdeveloped Regions	(260)			(260)
Public Housing in Urban Areas	(1,603)			(1,603)
Assistance to Municipalities	(520)			(520)
Natural Disasters	(52)		(52)	

<u>Ministries</u>	<u>Total</u>	<u>Rural</u>	<u>Rural/ Urban</u>	<u>Urban</u>
<u>Education</u>	12,740	8,212	887	3,641
Primary Education	(11,853)	(8,212)		(3,641)
Adult Education	(866)		(866)	
Education of the Children of Turkish Workers Abroad	(21)		(21)	
<u>Finance</u>	7,981	2,952	4,759	270
Village Electrification (transfer to the Turkish Electricity Company)	(2,140)	(2,140)		
Assistance to the Needy of over 65 Years Age	(3,259)		(3,259)	
Fund for Assistance to Under- developed Regions	(500)	(500)		
Assistance to Municipalities	(270)			(270)
Fund to Lend to the Workers Abroad for Housing and Business	(100)		(100)	
General Health Insurance	(300)		(300)	
Agricultural Insurance	(300)	(300)		
Earthquake Fund	(100)		(100)	
Assistance to Village Budgets	(12)	(12)		
Assistance to the Council for Credit and Students' Halls for Higher Education	(1,000)		(1,000)	
TOTAL	44,616	30,159	6,973	7,564

~~Mr. B...~~  
Basic Needs *File*  
Paper No. 3

INTERNATIONAL IMPLICATIONS FOR DONOR COUNTRIES AND AGENCIES  
OF MEETING BASIC HUMAN NEEDS

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November 15, 1977

INTERNATIONAL IMPLICATIONS FOR DONOR COUNTRIES AND AGENCIES  
OF MEETING BASIC HUMAN NEEDS

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INTERNATIONAL IMPLICATIONS FOR DONOR COUNTRIES AND AGENCIES  
OF MEETING BASIC HUMAN NEEDS

I. Introduction

1. There has been an increasing recognition in the last few years that meeting basic human needs should be accorded high priority among the objectives of national and international development efforts. Reflecting this growing consensus, Mr. McNamara proposed in his annual address to the Board of Governors, both in 1976 and 1977, that "developed and developing nations alike establish as one of their major goals the meeting of the basic human needs of the majority of the absolute poor within a reasonable period of time - say by the end of the century." He went on to suggest that "the developing nations individually, and the world community collectively, formulate the specific actions that must be taken to accomplish such an objective, lay out the time schedule for these actions, and monitor the progress of the program." This note explores the operational implications for the donor countries and agencies of setting a global target to meet the basic human needs of the majority of the absolute poor by the turn of this century. The operational implications for individual developing countries are analyzed in separate, related notes to illustrate the major policy options to be considered by the developing countries themselves.

II. Perspective for Action

2. It is important to clarify the perspective within which donor action needs to be planned:

- Meeting the basic needs of mankind - food, water, public health, basic education and shelter - is a universal objective. In our interdependent world, the aim of meeting basic needs should be a first charge on world resources, and its implementation calls for a joint international effort. Developing countries ready to engage in reforms essential for meeting basic needs should, therefore, be assured of sustained financial and technical support from donor countries and international agencies. And donors ready to provide aid for meeting the needs of the poor would find political support in their own countries if they are assured that recipients are giving top priority to this objective. This is the essence of the "global compact" for poverty eradication.
- In this concerted effort, the role of the donors can be only supportive of the national action by individual developing countries. While policy dialogues between

donors and recipients may be helpful in underscoring the importance of basic needs programs, the primary initiative must rest with the developing countries themselves.

- Emphasis on basic needs implies giving higher priority to those programs which increase the productivity and earning power of the poor and which extend appropriate public services to them. However, in order to meet their basic human needs, most developing countries will require a GNP growth rate of at least 5 to 6% a year and of income per head of at least 3-4%. This implies donor support of a broad range of development programs needed for the overall growth of the economy.
- In many countries, the approach of the recipients - and, therefore, that of the donors - may have to be partial rather than comprehensive: it may be possible to make progress on some of the basic needs rather than on the entire front at once.
- The donors must recognize that the focus on basic needs stresses equality of opportunity within nations, while the recent dialogue on the new international order has stressed equality of opportunity among nations. The two concepts are complementary, not in conflict. But donors can be taken seriously in their advocacy of basic needs only if they subscribe to the central objective of the ongoing dialogue on the new international order; and recipients only if they use the framework of the new international order to launch a serious attack on poverty.

3. The new international economic order aims at unconditional, automatic or semi-automatic, often concealed transfers of resources, (or at correcting past reverse transfers), whereas basic needs implies a highly targeted approach, aiming directly at the alleviation of deprivation of particular groups. These differences point to the need to advance on both fronts simultaneously. A basic needs program that does not aim at self-reliance, at help to enable people to help themselves, is liable to degenerate into a charity program, both domestically and internationally; and a new international economic order that does not meet basic human needs may transfer resources from the poor in rich countries to the rich in poor countries. The purpose of the new international economic order is to ensure that the ultimate impact of the whole range of North-South policies is consistent with a self-reliant approach to meeting basic human needs. For it is quite easy to envisage situations in which the benefits of assistance for basic needs are more than offset by the damage done by protectionist trade arrangements, or by the unequal division of gains from foreign investment, or by the impact of restrictionist monetary policies. It is one of the aims of the World Development Report, on



which the staff of the World Bank are now engaged, to trace the links between trade, investment, debt, balance of payments and other policies, and basic needs, and to assess the impact of all international policies on poverty eradication.

4. The interaction between developed and developing countries on basic needs programs is likely to cover a number of areas, including additional flows of ODA, larger accommodation in their capital markets of the borrowing needs of the creditworthy developing countries, and reduction of trade barriers, particularly on labor-intensive exports from the developing countries. However, this note covers mainly the question of additional flows of ODA. It is also confined to a discussion of these flows from the OECD countries even though it is possible that ODA flows from other sources (such as OPEC and the Socialist bloc) may assume greater significance over the next two decades.

### III. ODA Volume

5. The volume of additional ODA needed to finance basic needs programs will depend on a careful balancing of the following considerations:

- total need for additional external assistance to meet basic needs by the year 2000, on the assumption of reasonable domestic efforts in the developing world;
- a realistic rate of acceleration in the foreign assistance programs of the donors; and
- an assessment of the willingness and the absorptive capacity of the developing countries to accelerate their programs focused on the meeting of basic human needs.

Judgements on all these factors will be uncertain, with a considerable margin of error. Nevertheless, some judgements must be made if an operational plan of action is to be drawn up by the international community.

6. Some work has already been undertaken by a number of institutions and organizations on global estimates for financing basic needs in various selected sectors. These global estimates represent only an order of magnitude and should not be taken too literally at this stage: better estimates will emerge on the basis of detailed country-by-country work. Moreover, it should be recognized that neither all the developing countries are likely to adopt the goal of meeting basic human needs by the turn of this century nor is there a particular sanctity about the year 2000. Also, the global estimates represent the lowest end of the scale since they are worked out from minimum standards of basic needs. With all these qualifications, it is still useful to look at these global estimates in order to derive a broad idea of the financing needs for meeting basic human needs. The main conclusions which emerge from this review are:

- A basic needs program aimed at providing the minimum acceptable diets, drinking water, sewerage facilities, public health measures, basic education and upgrading of existing shelter might require an annual investment of nearly \$20 billion over a 20-year period (1980-2000) in 1976 dollars and prices.
- If annual recurrent expenditures are added to the investment costs (as they must for any successful implementation of these programs), the annual cost will run up to about \$45 to 60 billion.
- While the middle-income countries have more options available to them, it is clear that most of these programs will be beyond the resources of the poorest developing countries where about 80% of world's absolute poverty is concentrated. The annual investment and recurrent costs of the basic needs programs for the poorest countries are likely to be in the order of \$30-40 billion which is 12 to 16% of their projected GNP during the period and 80 to 100% of their projected gross domestic investment.
- This means that either the poorest countries will have to extend the time period for achieving this objective much beyond the year 2000, or they would require considerable additional transfer of concessionary resources from the developed countries as well as redirect some of their existing investment and current expenditures towards the poorest sections of the society.
- Assuming that the OECD developed countries focus their attention primarily on the poorest countries and choose to underwrite about 50% of the additional costs of the basic needs programs, this would require about \$15 to 20 billion a year of additional ODA flows.

7. The present level of ODA flows from the OECD countries is roughly \$14 billion a year. It would be unrealistic to expect that this level can be doubled overnight. Moreover, the poorest countries receive only about \$6 billion of these ODA flows at present and only a part of this assistance is devoted to programs aimed at meeting basic needs. It is obvious that it will take some time before developing countries can increase their own capability to organize and execute basic needs programs as well as mobilize matching domestic resources for these programs. Taking all these factors into account, various alternative scenarios can be prepared for the 1980-2000 period, illustrating the need for additional ODA flows, the ability of OECD countries to increase their aid appropriations over time, and the capacity of the developing countries to mobilize their own resources and to carry out basic needs programs. One such scenario is presented in the table below which represents a fairly careful, though necessarily arbitrary, balancing of these various considerations.

Table 1

Illustrative ODA Projections from the OECD Countries  
(in 1976 prices)

	<u>1976</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>
1. GNP (billion \$)	4,100	5,000	8,200	13,500
2. ODA (billion \$)				
- total	14	18	38	58
- poorest countries	6	8	24	40
- middle-income countries	8	10	14	18
3. ODA/GNP (%)				
- total	.34	.36	.46	.43
- poorest countries	.15	.16	.29	.30
- middle-income countries	.19	.20	.17	.13

8. As the above table illustrates, an increase of \$2 billion a year in current ODA levels during the 1980-2000 period can meet the various considerations discussed earlier. Such a target of \$2 billion annual cumulative increase, if distributed in the ratio of 4:1 between poorest and middle-income countries (see para. 11), will yield roughly an annual average of \$16 billion in additional ODA flows to the poorest countries over the period 1980-2000. In the early 1980s, such a target will require an acceleration of over 10% a year in current ODA levels (a faster rate for some of the present "under-achievers"), but the needed rate of increase will diminish gradually over time as total ODA volume grows. Such a phasing will also be more in line with the growing capacity of the poorest developing countries to mobilize matching domestic resources and to become increasingly self-reliant. It needs to be stressed that what is being suggested here is not a specific ODA target for international adoption but the process of reasoning through which any such target should be derived.

IV. Allocation of ODA Flows

9. What should be the criteria for allocating ODA between countries implementing basic needs programs? Sometimes the choice is presented in the form of a dilemma. Should concessionary assistance be given to the poorest and the least developed? Admittedly, they need it most but they are also said to be least capable of making good use of it;

their "absorptive capacity" is limited. Or should aid be given to those who can make the best use of it, even though they are likely to be already better-off and, therefore, less in need of external assistance? The contrast is drawn between the "needy" and the "speedy"; the former being inefficient in using assistance, and the latter being quite capable of doing without it.

10. The dilemma is a false one. The correct criterion for allocating aid is to countries in which its impact on meeting basic human needs will be the greatest. In other words, external assistance should go to the greatest future improvers, not necessarily to the best past performers. In practice, this means that a larger proportion of aid should be given to the largest and poorest countries, as long as there is some assurance, in the form of matching local contributions, that the lot of the poor will be improved on a sustainable basis. At the same time, concessionary assistance to relieve pockets of poverty in middle-income countries is consistent with the criterion as long as the shift in policies, programs and projects towards the poor in these countries can be attributed to the assistance and to the policy dialogue that goes with it. The central point is that the present country allocation criteria should be modified to give greater weight to the size of the population living in absolute poverty within a particular country and to its overall economic and social performance as measured by the attention it is paying to meeting the basic needs of its absolute poor.

11. It follows that as between two broad groups of countries - poorest and middle-income - part of the appropriate criterion is the respective number of their population presently living in absolute poverty. Since about 80% of the total 900 million absolute poor are estimated to live in the poorest countries, a rough formula for distributing additional ODA can be 80:20 between the poorest and middle-income countries, as against the distribution of existing ODA in the ratio of 40:60 respectively. Such an allocation formula will also re-affirm the principle that this additional ODA is earmarked for people (particularly the absolute poor), and not for countries. It will also have the virtue of correcting the existing imbalances in the geographical distribution of ODA, without taking existing ODA flows away from the middle-income countries. If additional ODA is split 80:20 between the poorest and the middle-income countries, the share of total ODA to the poorest countries will gradually rise from the present 40% to about 70% by the year 2000.

12. A sub-criterion in this allocation process can be to tie concessionary assistance to certain specific projects and programs aimed at raising the productivity and earning power of the poor as well as providing relevant public services to them. While it is true that meeting basic needs calls for close linkages between various sectors of the economy and there is a certain degree of fungibility of resources in any country, it is also true that specific tying of assistance to basic needs programs can help at times in enforcing the necessary discipline and in strengthening the hands of those within the national system who

are interested in promoting the objective of meeting basic needs. This happened in the 'sixties when a number of donors put a great deal of emphasis on population control programs. However, it is clear that project and program tying can only be a secondary consideration. It is far better to allocate external assistance on the basis of overall country criteria than to tie it either to specific projects or to broadly defined sectors.

#### V. Channels for Additional ODA Flows

13. Donors, taxing their citizens to contribute to meeting basic needs in developing countries, understandably want to be reasonably certain that their resources reach the people for whom they are intended. Governments of developing countries are equally understandably concerned to maintain full sovereignty and autonomy, and are unwilling to have their priorities laid down for them by foreign governments. In order to reconcile these two sets of objectives, it is necessary to evolve buffer institutions or buffer processes, acceptable to both recipient and donor countries, that ensure the achievement of both sets of objectives by appraising basic needs programs submitted, by channelling funds in the correct direction, and by monitoring basic needs performance.

14. International institutions, like the World Bank and the regional development banks, on which the recipients are represented, which already channel a substantial proportion of their resources to the poorest people in the poorest countries (IDA 86% compared with 40% bilateral ODA), and which employ an international staff, with loyalty to the objectives of the international community, are an obvious candidate for this buffer function. For these reasons it is for consideration whether a substantial part of additional ODA flows (say 50%) should be channelled through multilateral institutions. Of course, these multilateral institutions will need to review their own existing criteria of allocation in order to focus more on absolute poverty and on the financing of basic needs programs.

#### VI. Capital and Recurrent Costs

15. Donors are understandably reluctant to be encumbered by large and continuing obligations to finance recurrent expenditures. Basic needs projects will not normally yield a commercial rate of return, so that recurrent costs will tend to be financed by public revenue, and donors are reluctant to give budgetary support. But the entirely legitimate desire to confine assistance to pump-priming and to encourage maximum local commitment does not point to the exclusive financing of capital costs.

16. Indeed, especially in the area of low-cost public services designed to meet the needs of the poor, it is often desirable to minimize capital expenditure (e.g., on school buildings or hospitals) and to raise the effectiveness of recurrent expenditure (more and better trained teachers, more paramedical personnel for rural areas). The way to prevent continuing

burdens and to encourage local contributions is to build phasing-out provisions into the project finance. Thus, it could be agreed that foreign assistance is contingent upon matching local contributions or that a specified and growing share of recurrent costs be financed by the recipient country.

#### VII. Operational Procedures

17. A number of other changes in the present operational procedures may be needed if the donors choose to place greater emphasis on programs aimed at meeting basic needs. It is unnecessary to go into them in great detail here but some of the important implications can be briefly mentioned:

- greater flexibility in donors' procedures, so that disbursement of funds can be speedily adjusted to local needs;
- greater preference to local procurement and larger accommodation for local cost financing;
- modifications in project appraisal and project allocation procedures to reflect greater weight for the country's efforts to redress absolute poverty;
- development of social and human indicators in order to monitor the performance of the recipients adequately, both in the economic and social fields.

#### VIII. Recommendations

18. The principal operational conclusions which follow from the above analysis can now be summarized:

- a) A realistic, politically feasible international program must combine three requirements: it must be a substantial step towards meeting the basic needs of the poor; it must be within the donors' financing capacity; and it must not exceed recipients' absorptive capacity. An annual increase of ODA by \$2 billion a year (in constant prices) over the 1980-2000 period would make it possible to launch a vigorous initiative in meeting basic needs while simultaneously satisfying the other two requirements.
- b) The bulk of additional resources should be allocated to the poorest countries where 80% of the absolute poor are concentrated thus altering the composition of ODA distribution between the poorest and the middle-income countries from the present 40:60 to 80:20 in the allocation of additional ODA.

- c) While the middle-income countries may receive only a small proportion of additional ODA flows (e.g., 20%), it would be necessary to increase their options through greater access to the capital markets of the developed countries for conventional borrowing, expanded lending from the IBRD and dismantling of existing trade barriers.
- d) A new set of allocation criteria should be designed which give greater emphasis to the absolute poor population within the countries and to programs intended to meet their basic needs. The allocation among the group of poorest countries can be roughly proportional to their population in absolute poverty and to the additional expenditures recipients themselves are willing to commit to basic needs programs. Tying of assistance to specific projects or broad sectors can also be helpful at times, though preference should be given to overall country allocation criteria.
- e) The additional funds should be channelled substantially (say 50%) through multilateral institutions which would provide, on IDA terms, the project, sector and program loans necessary to meet basic needs.
- f) The distinction between capital and recurrent costs should be abandoned in the case of the basic needs programs and the basis for cost sharing between domestic and external contributions should be total project costs (including capital and recurrent expenditures). In order to encourage growing self-help on the part of the recipients, financing of the recurrent expenditures should be on a phased-down basis.
- g) An effort should be made to develop new human and social indicators to monitor country performance on a comparable basis and to make satisfactory assessment of how best a country is integrating its economic and social goals.





DRAFT

PAKISTAN: OPERATIONAL IMPLICATIONS OF ADOPTING BASIC  
NEEDS TARGETS

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## SUMMARY AND CONCLUSIONS

i. In terms of aggregate growth, Pakistan has fared better than other countries of South Asia. In the thirty year period since independence in 1947, Pakistan's gross domestic product increased at the rate of 4.1% per annum, compared to 3.9% for Sri Lanka, 3.5% for India, 2.8% for Nepal and 2.2% for Bangladesh. However, in terms of social development, it has not done as well. Its rate of literacy and life expectancy at birth are lower and its rate of infant mortality higher than the average for South Asia. This relatively low level of social development is due, in part, to a very rapid growth of population - at 3.1% per annum it was the highest in South Asia - and in part because of the neglect of social services by the government. One consequence of not meeting the basic needs of the people would be to keep the fertility rate at its presently high level. If this happened, the country's population could increase from 80 million in 1977 to 190 million by the end of the century.

ii. Arguing that without a strategy aimed at meeting basic needs, Pakistan could face a very uncertain economic and political future, this paper attempts to identify the target groups as well as sectors that need immediate attention. In providing this attention, the government will have to redesign public health and educational services as well as raise the level of incomes of the poorer groups. The paper suggests that three basic needs (health, education and sanitation) can be best met by public sector expansion and three other (food, shelter and clothing) by an increase in the real incomes of the poor.

iii. Among the target groups, the most important are male children under the age of five and female children between the ages of 5 and 10. The first group is important because of its high rate of mortality which translates into a desire for larger families and, consequently, higher rate of fertility. To reach this group, Pakistan will have to redesign its health services with much greater emphasis on rural areas. The paper recommends a system of inter-locking health delivery systems, with Rural Health Centers (RHCs) located in the villages, feeding larger hospitals situated in towns and cities. RHCs would be staffed mostly by paramedics to be chosen by villagers for such training. This system could be put in place over a period of ten years at a cost that would increase the share of the health sector in GNP from the presently very low level of 1% to 2% by 1987.

iv. The second important target group - girls between the ages of 5 and 9 - must be provided with better opportunities of acquiring literacy. Out of 6.4 million children not attending primary school, nearly two-thirds (4.1 million) are girls. Since female literacy and participation in the

labor force are strong determinants of fertility decline, a continuing neglect of this group would serve to keep fertility rates high. The program of school construction and teacher training proposed here will also have a rural focus. This program will raise the share of primary education from the present 0.7% in GNP to 2.0% in 1987.

v. In so far as the basic needs of nutrition, shelter and clothing are concerned, the paper argues that the most efficient way for meeting the appropriate goals is to increase the real incomes of the poor. The poor have a higher "efficiency factor" in fulfilling these needs through their personal expenditures - of every additional dollar of income, 0.85 cents will be spent on these three needs according to the household expenditure surveys. To increase the share of incomes of the poor, the paper suggests a strategy that the Bank has already put forward in its work in the areas of rural development and urban poverty. That is to say, the paper recommends:

- a greater emphasis on increasing small farmers' productivity. Increasing the small farmer productivity to the level achieved by the middle sized farmers would provide an additional 550,000 tons of grain, sufficient to close nearly 80% of the present nutritional gap;
- deemphasis on the large scale industrial development in favor of small scale enterprises. A job in a small scale enterprise can be created at an investment of Rs. 5,000, compared with Rs. 500,000 in industries such as steel and chemicals. By diverting Rs. 10 billion from large to small scale enterprises, 2 million additional jobs could be created. These jobs will be created in small scale enterprises that have strong backward linkages to domestic agriculture, are least dependent upon imports of raw material and equipment and can make a substantial contribution to increasing the country's exports;
- deemphasis on physical infrastructure such as highways and railways in favor of the projects that would better incorporate the very large rural sector into the economy. This would mean abandoning such projects as the Karachi Steel Mill, the Indus Highway and nuclear power plants and Islamabad Sports Complex in favor of small scale enterprises, rural roads and village electrification.

vi. In order to bring about this shift in priorities, the government will have to take some difficult decisions. For instance, to improve the productivity of the small cultivators - the most efficient way for increasing the nutritional intake of a very large number of rural poor - the government

will have to deliver inputs to farms with average size of less than 2.5 acres. This seems possible only if the small farmers can be persuaded to consolidate their holdings into larger units. This will not be easy. Again, in order to provide additional resources for the development of small scale enterprises, the government will need to eliminate a number of projects (cited in paragraph above) to which either substantial resources have been committed or which were included in the plan because of the prestige they lent to the development effort.

vii. Raising household incomes to meet basic needs will take care of only one part of the problem since the efficiency factor of 85%, referred to in paragraph (v) above does not apply to individuals within the family. This means that, because of maldistribution of resources within the family, an increase in income may not provide basic needs to the target groups deserving special treatment. For instance, of the 19 million undernourished people in Pakistan, seven million are children. Of these seven million, five million are girls. This in part explains why female child mortality is about 20% more than that for males. Education and social change will be necessary elements in improving the nutritional situation of children within poor families.

viii. An increase in public investments would be crucial in meeting the basic needs in education, health and sanitation. The paper recommends an expenditure, over the next decade, of Rs. 22 billion in 1977 prices, to increase from Rs. 0.7 billion in FY77 to Rs. 3.1 billion in FY87, a rate of growth of about 16% per annum. At this rate of increase, the public sector expenditure in these sectors would be of the order of 10% in total development expenditure compared with only about 4% in the past.

ix. Impelmentation of the strategy proposed here will have a major impact on alleviating absolute poverty in the country. This strategy would provide:

- additional food to 19 million people and raise their level of nutrition to that required for maintaining health and productivity. After 1987, Pakistan should not have a nutritional problem;
- increase primary school enrollment from 5.6 million to 15.0 million thereby ensuring basic education to all children of school-going age;
- improve the standards of health so that the rate of mortality declines from 12.0 to 7.8 and the rate of infant mortality from 113 to 75;
- add 300,000 additional housing units for the poor thereby tripling the present stock of housing at their disposal; and
- provide an additional two million jobs in the industrial sector by shifting resources from the large to small scale enterprises.

x. While the financial burden of meeting basic needs within a decade is not insurmountable, there are many institutional problems within each sector which must be overcome. The present education system, for instance, is badly administered, lacks sufficient resources and is based on irrelevant content and ineffective teaching methods. As a consequence, 40% of the school-going children drop out before they finish primary school, and those who remain fail to learn even rudimentary literacy. Similar problems exist in the health, water supply and sanitation fields. Unless these institutional problems are overcome, the achievement of physical targets will not bring with it the meeting of basic needs.

xi. The strategy being proposed here need not be inimical to rapid growth of output. In fact, on the basis of a simple macro-economic model, it appears that it might be feasible to obtain a higher aggregate rate of growth - of the order of 6.0% per annum in the 1977-87 decade - as against 5.2% if the investment priorities proposed in the government's draft Fifth Plan (1978-83) are pursued. The increase in the rate of growth in the basic needs approach occurs:

- on account of greater efficiency in the use of capital as indicated by an incremental capital output ratio of 2.7 compared to 3.5 in the government's proposed plan as a result of a drastic reallocation of investment resources to priority sectors;
- in spite of a possible decline in the marginal savings rate from 15% to 10% because of the lower capacity of the poor people to save; and
- in spite of a planned decline in the flow of external resources from over 10% of GNP to about 5% to make the economy increasingly self-reliant.

xii. Apart from providing basic nutritional, educational, health, sanitational, shelter and clothing needs to the population, this strategy is also likely to reduce the rate of population increase from the present 3.1% and from the expected 4.1% to 2.3% during this decade. At this rate of increase, Pakistan will have a population of 100 million in 1987 compared to 80 million at present and a per capita income of \$233 (in 1977 dollars) compared with \$170 at present.

xiii. In order to implement this strategy, Pakistan will have to introduce some major institutional changes. The most important of these is a system of local government which would allow the people to participate in decision-making at all levels - villages, towns, cities, provinces and the nation. Pakistan had developed a successful system of interlocking local governments during the 'sixties. This arrangement was an effective channel of communication between the people and the decision makers. A similar system is needed now.

xiv. Such a system would not only provide the opportunity to the people to participate in planning for a better future for themselves, it would also make it possible to provide them with better public services, by mobilizing local resources, especially underemployed labor. For instance,

the systems of health and education proposed in this paper could be integrated with the system of local government. The Comilla experiment in East Pakistan suggests that such integration not only improves the quality of public services but also reduces the cost of delivering them. In Comilla, the bulk of the recurrent expenditure on public services was undertaken by the local community.

xv. Without introducing a strategy of basic needs, Pakistan may have to pay high economic, social and political costs. For instance:

- with a 4.1% rate of growth in population, Pakistan would have a population of 113 million in 1987, and a per capita income of only \$184, \$14 more than at present;
- without a major reallocation of resources towards small farms and small scale industries, the opportunities for gainful employment for the poorest groups will remain very limited;
- failure to address basic needs in health, education and water supply/sanitation will mean a deterioration in the distribution of income, and larger numbers of people living in poverty. Combined with the prospect of stagnant per capita incomes, the result will be social and political unrest. Pakistan has already paid a high price for these disruptions in the past.

xvi. The main conclusions which emerge from this study for the top policy makers in Pakistan can thus be summarized as follows:

- (a) A strategy aimed at meeting the basic needs of the people in Pakistan, to be implemented over a period of a decade would not only alleviate the worst forms of poverty but also reduce by a significant amount the rate of population growth and quicken the growth in the national product. Without this focus, Pakistan is likely to experience a high rate of population growth and a sluggish expansion in its per capita income.
- (b) The focus on basic needs will have to be fairly selective if it is to be concentrated over a period of the next ten years. Widespread malnutrition or shelterless population are not the main problems in Pakistan. Redesigned education and health services are the key to meeting basic needs.
- (c) Once appropriate investment priorities and price signals are set, market mechanism can be used extensively to satisfy basic needs because of the present consumption pattern of the poor households. These households spend about 85% of their income on such basic needs. Overall, three basic needs (health, education and sanitation) can best be met by public sector expansion and three other (food, shelter and clothing) by an increase in the real incomes of the poor.
- (d) The most important target groups, from a longer term point of view, are male children under the age of five and female children between the ages of 5 and 10.. The government may, however, have to add to this list other politically

vocal and restless groups - such as educated unemployed, shelterless population in major cities, localized pockets of poverty - which need short-term political attention through specifically-targetted programs.

- (e) The overall financial resource implications of indertaking basic needs programs are not too large: public sector expenditure on basic needs public services will have to expand from the present 4% to 10% of the public sector development budget over the next ten years and there will need to be major reallocations within the present investment budget, from large scale, prestigious industrial and infra-structure projects, to small farms and small scale industries. But tough political decisions will be needed if some elements in the public sector current budget (e.g., defense, administrative expenditure) are to be squeezed to make room for the additional expenditure on the basic needs public services; or if additional public revenues are to be raised; or if some prestigious projects are to be abandoned or slowed down.
- (f) A basic needs program can be implemented without increasing the dependence of the economy on external resources. This is in part because Pakistan already has a large flow of external resources - up to 11% of its GNP in 1976. What is needed is a redirection of those resources.
- (g) One of the critical policy actions for increasing the income of the poor is to raise the productivity of the 1.62 million small farms, with an average area of less than 2.5 acres each and a productivity per acre of 0.40 tons of foodgrains. Without some pooling of key services (credit, water, fertilizer) to these small farms, it is not going to be possible to increase their productivity significantly or to reach those rural families where most of the present malnutrition is concentrated.
- (h) Another key area for policy action is the reorganization and management of small scale enterprises which provide 80% of the present industrial employment but only 20% of its output. This would require major changes in the present operational procedures of the DFCs in Pakistan as well as in the investment and import sanctioning policies.
- (i) The government will also need to take some decisions on the consumption patterns in the non-basic needs sector: it may have to use its present control over the allocation of scarce resources and/or fiscal means to control ostentatious consumption.



- (j) In order to implement a program designed to meet basic needs, Pakistan will need to develop institutions that would ensure participation in decision-making to the poorer segments of the population.
- (k) Finally, it should be pointed out that the strategy outlined above calls for some major changes in the government's development priorities and for some significant institutional restructuring. These changes would not be universally popular; they are bound to be resisted by some powerful elements in the society. They can only be carried out by an administration that has a well defined set of political, economic and social objectives and the political will and support to carry them out.

## INTRODUCTION

1. This paper presents a case for the adoption by Pakistan of a strategy aimed at meeting the basic needs of the people. The case is presented on grounds that include, inter alia, the following:

- the country's economic future depends to some considerable extent on the ability to bring about a substantial reduction in the presently very high rate of fertility.. Provision of basic needs to the deprived segments of the population have an important role to play in reducing fertility rates;
- the resources required for meeting the basic needs of the people are not very high and can be managed by a combination of domestic and donor policies;
- a strategy that aims at meeting basic needs will not be at the expense of growth; in fact, it could contribute significantly to increasing the national wealth; and
- without a set of policies that provided people with basic needs in the not very distant future, the country could face a difficult political situation.

2. While the recent administrations have recognized the importance of alleviating basic forms of poverty - the draft Fourth Five Year Plan (1970-75) released by the Ayub regime just before it fell in March, 1969, the revised Fourth Five Year Plan to which the Yahya regime (1969-71) gave its support and several versions of the Fifth Five Year Plan during the Bhutto period (1971-77) all put considerable emphasis on "minimum levels of consumption" - the full implications of such a strategy were never carefully worked out. This paper takes a step toward this direction by making a tentative effort in:

- incorporating a basic needs program in a macro-economic framework;
- identifying macro and micro policy initiatives needed to implement such a program; and
- focusing on the institutional changes that will be needed to make the program fully operational.

3. The paper is divided into four sections. The first part is concerned with providing the main features of Pakistan's demographic dilemma and its relevance to a strategy for insuring basic needs. This section also identifies a number of scenarios of development - those that could have been followed in the past and those that could be pursued in the future - with different implications for the country's present and future economic well-being. The second section identifies the main areas of attention in

a basic needs oriented strategy and details the policy actions that need to be adopted in each case. Since the country appears to be very close to solving the problem of nutrition, special focus needs to be given to health and education. The third section seeks to incorporate the elements of a basic needs strategy identified in Section II into a macro-economic framework. The more important implications of introducing this objective into development policy are also worked out. The fourth section identifies the institutional changes that need to be introduced in order to implement a strategy aimed at meeting basic needs and also provides an assessment of political and economic costs in not implementing it.

#### I. THE DEMOGRAPHIC SITUATION: A MANIFESTATION OF POVERTY?

4. Pakistan now has a population of 80 million as compared with 32 million in 1947, the year the country achieved independence. This more than doubling of population in a period of thirty years was made possible by a sharp decline in the rate of mortality and a persistently high rate of fertility. While the crude death rate declined from thirty per thousand in 1947 to 13 in 1977, crude birth rate has remained unchanged at between 40 and 47. With no change in the rate of fertility, the population is now growing at the rate of 3.1% per annum. Because of a large rate of increase in the last two decades, the population is very young. Some 48% is less than 15 years old. As these young people enter the child bearing age the rate of population growth, even without a change in the rate of fertility, could increase to 4.1% per annum over the next two or three decades.

5. In the thirty year period since independence, Pakistan's national product has increased at the rate of 4.1% per annum. However, because of the high population growth rate, per capita income has increased very slowly. By 1977 it had reached a level of \$170, only \$47 more than in 1947. The sharp increase in population has not only reduced the increase in per capita incomes, it has also strained the capacity of the social sectors to service the population. The number of children not attending schools has increased from 4.7 million in 1947 to 7.0 million in 1977; people with no access to clean drinking water increased from 24 million to 57 million, those with inadequate shelter from 22 million to 50 million and those with inadequate access to health services from 20 million to 50 million. One important consequence of this strain on social services is that the country has made little progress in bringing about a significant improvement in those aspects of life that have a strong influence on the decline in the rate of fertility. For instance, the rate of infant mortality remains high - at a level of 113 per thousand. This high level of wastage means that the families plan on a large number of births in order to achieve what they consider to be an optimum number of children. The rate of female literacy remains very low; in 1977, only 2% of the female population was literate as compared with 16% for males. The female participation in labor force was not much better: less than 10% as compared with over 40% for males. Accordingly, despite large investments by the government in various family planning programs, the rate of fertility remains high and unchanged.

6. Pursuit of a different set of economic policies would have probably resulted in a slower growth in the country's population, a higher level of per capita income, and greater availability of social services under not as much strain. For instance, emphasis on rural development during the 'fifties and 'sixties might have produced a ten point reduction in the rate of fertility over a period of twenty five years. As the experience of the Indian province of the Punjab suggests, such a decline could have been achieved (Table 2 below). Had such a decline in the rate of fertility been achieved, Pakistan's present population would be of the order of 65 million instead of 80 million and its per capita income \$210 instead of \$170. In other words, a slower growth in population, combined with the same growth in national product would have resulted in an increase in per capita incomes almost double what was actually achieved - an increase of \$87 as against \$47 actually realized during the 1947-77 period.

Table 1

Pakistan's Population and Growth Rates

	<u>What they are</u> (Actual)			<u>and</u>	<u>What they could have been</u> (Possible)			
	<u>CBR</u> (per thousand)	<u>CDR</u> (per thousand)	<u>Rate of Growth</u> %		<u>Population</u>	<u>CBR</u> (per thousand)	<u>CDR</u> (per thousand)	<u>Rate of Growth</u> %
1951								33.8
1961	47	16	3.1		43	15	2.8	44.5
1972	49	14	3.5		37	13	2.4	57.8
1977	44	13	3.1		34	10	2.4	65.1

7. The hypothetical scenario referred to above (Table 1) would have had a considerable impact on social development. The nature of the impact can perhaps be best appreciated by a comparison of several "quality of life" indices for Pakistan and the Indian Punjab. The areas in Pakistan that are contiguous to Punjab State and account for the bulk of the country's population were at about the same stage of development in 1947. As can be seen from the data of Table 2 below, the Indian Punjab, in terms of social development, is now far ahead. In fact mortality and overall death rates are half those of Pakistan, while there are twice as many doctors available and double the proportion of children in primary school. Differences between Indian Punjab and Pakistan must be attributed to different patterns of development since per capita incomes are still extremely close.

Table 2

"Quality of Life" Comparisons Between Pakistan  
and the Indian Punjab

	<u>Pakistan</u>	<u>Indian Punjab</u>
Infant Mortality (per thousand )	113	48
Life Expectancy at Birth (years)		
Males	53	64
Females	52	59
Crude Birth Rate per thousand per annum	44	28
Crude Death Rate per thousand per annum	13	7
Doctors/1,000 of the population	0.20	0.45
Percentage of Children in Primary School	44	90
Classes I-V - Males	64	96
Females	25	83
Rate of Literacy (%)	16	34

8. It is clear that in order to alleviate poverty, Pakistan must adopt policies that would reduce the presently very high rate of population growth. With no changes in the present rates of fertility and mortality, the country could have a population of 250 million by the end of the century. Without a decline in the rate of fertility, the gross national product will have to increase at the rate of over 4% per annum to prevent a decline in per capita incomes. This is equal to the rate of growth during the last thirty years. However, it appears that even at this rate of growth in the national product there would be an increase in the number of absolute poor. With a population of 250 million, Pakistan will have:

- 40 million children of primary school age. Even to maintain the presently low level of enrollment rate, it will require facilities for an additional 11 million school children and to provide those another 155,000 primary school and another 650,000 primary school teachers would be required;
- to provide another 40,000 doctors to maintain the presently low standard of health care; and
- to produce an additional 25 million tons of foodgrains to provide the minimum daily requirements of food.

In order to provide for the presently low level educational and health facilities, public sector outlays could increase to 25% of the total which is five times the provision for these sectors. Such a large outlay in these sectors would naturally starve other parts of the economy of resources and would have a very adverse effect on the economy's rate of growth. It seems,

therefore, that Pakistan cannot sustain a population of 250 million in the year 2000 without a substantial increase in the number of poor.

9. Table 3 below provides four different demographic scenarios for Pakistan. The first one can be ruled out on the grounds given above; the second, based as it is on a sudden drop in the rate of fertility to the replacement level, is equally implausible. Pakistan should strive towards the third option; in order to do this, it must evolve a package of policies aimed at a rapid social development of the population. Only by bringing about a sharp reduction in the rate of infant mortality, a substantial increase in general standards of health, and a significant improvement in the status of women can Pakistan expect to overcome its serious demographic problem. Without an improvement in the demographic situation, it would not be possible for the country to make a major economic advance.

Table 3  
Pakistan's Population Under Four Different Scenarios  
(millions)

<u>Scenarios</u>	<u>1977</u>	<u>1987</u>	<u>1997</u>	<u>2007</u>	<u>Per Annum Growth Rate</u> <u>(1977-2007)</u>
1. Constant Fertility	80	113	168	255	4.1
2. Moderate Fertility Decline	80	110	156	217	3.2
3. Sharp Fertility Decline	80	100	116	138	1.7
4. Replacement Fertility After 1977	80	87	101	115	1.2

10. In order to enact the third scenario, Pakistan will be required to implement an ambitious program of social development combined with an effective family planning service. Such a program, the social development components of which are described in Section II below, could reduce the crude birth rate to 28 in the next ten years and the rate of population growth to 1.7% per annum. Even with this reduction, Pakistan will have a population of 100 million by 1987 and 122 million by the end of the century.

II. A. A BASIC NEEDS PLAN FOR THE PUBLIC SECTOR, FY77-87

11. This section describes a basic needs program based on the demographic assumptions of the third scenario in Table 3 above. According to this, Pakistan will have a net addition of 20 million to its population in the ten year period between 1977 and 1987. The main objectives of the basic needs program developed here are to:

- fulfill the basic nutritional, health and sanitation, educational, shelter and clothing needs of the presently deprived population by 1987;
- increase the rate of growth in national wealth to 6.0% a rate well above the historical (1947-77) level; and
- reduce the dependence of the economy on foreign investment resources.

In achieving the first objective, the program will have to provide the needs not only of the additions to the population in the next decade, but also of the heavy backlog carried from the past. In the second objective, the economy will have to overcome the sluggishness that set in the past five years and for the third, allowance will have to be made for the heavy borrowing since 1973 and their impact on the balance of payments situation. Only the first of these three objectives will be defined in this section; the discussion of Section III will show that the remaining two will also be achieved.

Nutrition

12. Although Pakistan has a nutritional problem, it is not as serious as that of a number of other countries at the same stage of development. This is in part due to a relatively high rate of growth in agricultural output; whereas in the last decade agricultural production in South Asia increased at an average rate of just over 3% per annum, the rate of increase in Pakistan was over 5%. Analysis of food balance sheets indicate that the average level of caloric consumption is presently 2,370 k cals per capita, slightly more than the minimum established for health and full productivity. However, because of the inequality of income distribution, the poor suffer from some caloric deficiencies. It has been estimated that some 19 million people consume less than the 85% of the recommended dietary allowance for caloric. This is equivalent to 700,000 tons of foodgrains. In other words, a six percent increase in Pakistan's present foodgrains output could solve the nutritional problem if all of it could be directed towards the underprivileged groups.

13. The bulk of the population not able to meet their nutritional needs are in the rural areas and the bulk of them obtain their incomes either cultivating small areas or as landless workers. A small farmer oriented program, aimed at increasing the output of over 1.6 million farm households, accounting for a population of over 11 million, would make a substantial contribution to increasing the nutritional levels of the less advantaged segments of the rural population. At present, output of foodgrains per acre obtained by the small cultivators is about 40% less than that of the middle sized farmers (Table 4 below). Most of this productivity differential has developed in the last one decade when the larger farmers obtained access to the new, high yielding seed technology. This technology could also be provided to the small farmers if they could be provided with (a) adequate extension services, (b) credit for the purchase of seeds and fertilizers and (c) access to irrigation water. If the productivity of these cultivators could be brought to the level already attained by the middle sized farmers, the output of foodgrain could increase by almost 550,000 tons. This implies a rate of increase in productivity of less than 2% per annum. A small farmer strategy, therefore, would have a profound impact on closing the present nutritional gap of 700,000 tons.

Table 4  
Productivity Differential Between Farms of Different Sizes

	<u>No. of Farms</u> (millions)		<u>Area Under</u> <u>Foodgrains</u> (million acres)		<u>Productivity</u> <u>Foodgrains</u>	
	<u>No.</u>	<u>%</u>	<u>Area</u>	<u>%</u>	<u>Tons/Acre</u>	<u>Output</u> (millions)
Small (0-7.5)	1.62	43	3.6	15	0.40	1.44
Middle (7.5-50.0)	2.03	54	15.8	66	0.55	8.81
Large (over 50)	0.11	3	4.6	19	0.38	1.75
	<u>3.76</u>	<u>100</u>	<u>24.0</u>	<u>100</u>	<u>500</u>	<u>12.0</u>



14. The small size of the small farms - average size is only 2.22 acres - may be an inhibiting factor in obtaining access to new inputs and extension services provided by the government. Therefore, in order to reach these farms it may be necessary for them to consolidate their holdings into larger units. The previous attempts at consolidation did not succeed since they did not offer any incentives to the farmers. A program based on introducing the high-yielding seed technology to the farmers along with provision of credit and required inputs may provide the incentives the farmers need to organize themselves into cooperative units.

15. Of the disadvantaged, the largest as well as the most vulnerable are children. According to a micro-nutrient survey, 56% of the children surveyed under five years of age showed symptom of undernourishment. This means that some seven million children under the age of five may be undernourished in Pakistan. In other words, children under five account for nearly two-fifths of the undernourished population.

16. While increasing domestic output of foodgrains is not an important element in solving the country's nutritional problem - in fact, by 1987 Pakistan could have an exportable surplus of one million tons after satisfying the nutritional requirements of a population of 100 million even if its output did not increase by more than 4.5% per annum - what are important are policies designed to increase the incomes of the disadvantaged groups and the recognition by parents that children must be provided with an adequate diet.

17. The poor spend 60% of their incomes on food; it can be assumed then that increasing incomes of the poor will result in a compounding increase in food demand. If private consumption expands at a rate of 5% per annum - not an implausible target (see below) and if population grows at 2% (which it would if poverty alleviation became the central objective of development) then a 3% per annum growth of income can be expected. If the poor share equally with the rich in this income group, their per capita food consumption in the target group can be expected to grow at the same rate. This would imply that in the next seven years, food consumption in the target groups would increase by over 20%, enough to completely eliminate calorie deficiencies in the population.

18. The increase in the output of food and increase in and better distribution of incomes would still not ensure that the problem of malnourishment would be eliminated. In so far as children are concerned, the problem is sociological; the considerably higher rate of mortality amongst female children suggests that this by far is the most disadvantaged group in the country. At present, some five million of them are undernourished.

Education

19. Although Pakistan made an impressive amount of investment in the educational system in the past one decade, the amount of sources committed and the qualitative changes introduced were not sufficient to provide primary education to all primary age school children. Despite the increase in resource commitments in recent years, the expenditures on education remain at a very low level. For primary education, Pakistan spends a third of the average for all developing countries (Table 5 below). It is only for higher education that the level of expenditure in Pakistan are comparable to those in other developing countries.

Table 5

Education Expenditures as a Percentage  
of GNP (Mid-Seventies)

	<u>Pakistan</u>	<u>All LDCs</u>
Total Education	1.7	4.4
- Primary	0.6	1.7
- Secondary	0.5	1.8
- Higher	0.6	0.7,

20. These numbers suggest not only a low level of commitment to education but also a misallocation of whatever resources that are being made available for the school. Consequently, as the data of Table 5 shows, Pakistan has less than one-half of the primary school going children in classes. Amongst girls, the proportion is only one-quarter.

21. In order to achieve universal primary-education by 1987, Pakistan must provide for facilities for an additional 9.4 million children. Of this addition, 5.6 million or almost 60% must be for girls. If this target is to be achieved, the enrollment of girls must increase at a rate nearly three times as much as for boys (Table 6 below).

Table 6

Primary Education Targets for 1987

	1977 <u>(million)</u>	1987 <u>(million)</u>	Increase	
			<u>Absolute (million)</u>	<u>% P.G.</u>
Population	80.0	100.0	20	2.3
Children of Primary School Going Age	12.0	15.0	3	2.3
(Males)	(6.5)	(8.0)	(1.5)	2.1
(Females)	(5.5)	(7.0)	(1.5)	(2.4)
Children Attending School	5.6	15.0	9.4	(10.4)
(Males)	(4.2)	(8.0)	(3.8)	(6.6)
(Females)	(1.4)	(7.0)	(5.6)	(17.5)
Proportion of Children in School	47%	10%		
(Males)	(65%)	(100%)		
(Females)	(25%)	(100%)		

22. There is no serious resource constraint for meeting this target. Capital cost for primary school education is of the order of Rs. 100 per child; recurrent cost is estimated to be almost Rs. 150. By comparison, university education costs Rs. 10,000 in development expenditures and Rs. 4,500 in recurring costs per year. To provide universal primary education by 1987 would therefore cost Rs. 940 million over a period of ten years. This level of average capital outlay could be achieved by starting with Rs. 400 million in FY78 and going up to Rs. 1,400 million in 1987. In addition, by 1987 the government will need to spend Rs. 200 million per annum to increase the primary teacher stock by 200,000. Combined

with recurrent expenditures, this would mean that Pakistan, by 1987, would be committing just over 2% of its GNP for primary education which, given the numbers cited in Table 4 above, does not imply an excessive concentration. The burden on the economy would be lower if some resources could be diverted from higher into primary education. This could be done by reducing the expansion in higher education, by changing the recipients of higher education a part of the cost being incurred by the society and by involving the local communities in programs aimed at building new schools and maintaining those already in operation.

23. Given the distribution of income in Pakistan, a vast majority of the children out of school belong to the poor families. For these families, the rate of return from education is small -- according to one study the rate of return is as low as 6%, reflecting as it does both the high opportunity costs of keeping children in school and the small impact primary schooling has on increasing productivity -- and explains in part why they keep these children out of school. Also, among these out-of-school children, a vast majority are girls. Therefore, in order to achieve the target of universal primary education by 1987, the government should direct its activities at the poor families, particularly female children from those families. Private sector can be relied upon to contribute to primary education in urban areas and in the relatively more affluent rural areas. This would mean reversing the 1973 decision which led to the nationalization of all schools.

24. The low rates of return found for primary education indicate the considerable problems that must be faced in improving the quality of education. Surveys indicate, for instance, that after five years of primary school, many children have not acquired even sufficient skills to read a newspaper. Schools often do not have sufficient books or other materials for the numbers enrolled. There are inadequate funds to repair buildings, resulting in crowding two classes and two teachers into the same room. Because of inadequate supervision, teachers themselves are often absent. Much teaching is based on rote memorization, with emphasis on passing standard examinations, rather than on thinking and learning. While steps have been taken to introduce more relevant material on agriculture and technical subjects, progress has been slow. Local communities, which are often concerned over the inadequacies of their local schools, are not involved in the maintenance, supervision or curricula planning of these schools. As a result of these problems, many students drop out, which also explains why enrollment levels are so low. Fewer than 40% of those who enroll in first grade finish primary school and only 15% finish tenth grade. To adequately meet basic needs in primary education, therefore, requires not only the construction of more facilities, but also overcoming some of these more difficult institutional and administrative problems.

## Health

25. As in the case of education, various indices show that the state of health of the people of Pakistan is not as good as that of other countries at the same level of development. For instance, the rate of mortality is 13 per thousand as compared with 11 for India; the rate of child mortality is 113 as compared with 105 for the rest of South Asia and life expectancy is 55 years as compared with 57 years for all LDCs with per capita income below \$200. This relative backwardness is due in part to the neglect of the health sector in the government's development plans - in 1977 Pakistan spent only 1% of its GNP on health as compared with 2.5% for all LDCs - in part due to the concentration of committed resources in the urban sector - the 26% of the population in urban areas now have at their disposal 81% of the hospital beds and 46% of the health sub-centers - and in part due to the export of doctors to the USA, UK and the Middle East - Pakistan had 13,000 doctors in 1970, trained an additional 7,000 in seven years, but ended up with a stock of only 11,000 in 1977. A basic needs program in health, therefore, must reverse these trends by increasing the share of health in total expenditures, be delivering more health services to the rural areas, and by investing in kinds of health technicians that are most relevant to Pakistan's needs.

26. To reach these goals during the next ten years will require:

- the establishment of 1,000 additional rural health centers with 10 beds each and staffed by 2 doctors and 9 auxiliaries;
- the establishment of an additional 6,000 basic health units, serving population centers of 10,000;
- adding 30,000 hospital beds at the tehsil or district level;
- training 35,000 paramedics/auxiliaries;
- training 15,000 doctors and 6,000 dentists and nurses;
- training 55,000 community health workers.

27. The development costs of this plan would be about Rs. 7.0 billion including training facilities. Recurrent expenditures can be expected to increase by about 15% per year, with the result that the per capita expenditure on health services would double in ten years. These seem to be realistic targets considering that the expenditures on health (in real terms) have doubled in the past seven years; another doubling in the next ten years will still keep it below the average for all LDCs.

28. In order to become truly effective, the health system will have to achieve greater integration with other programs, namely the family planning program, immunization programs, maternal/child health clinics and dispensaries. The curriculum for training of doctors at medical schools needs to be revised to include more emphasis on preventive measures rather than strictly curative medicine. On the preventative side, substantial progress has already been made in the complete elimination of smallpox and nearly complete elimination of malaria. Approximately Rs. 3.0 billion will be required over the next ten years for the maintenance of these preventative programs, and extension of immunizations against polio, diphtheria and tuberculosis. Preventative programs in these areas are less expensive options to more costly curative programs.

#### Water Supply and Sanitation

29. The major causes of death in Pakistan today are the diseases that spread from impure water or improper sanitation (typhoid, cholera, gastro-intestinal disorders). A 1975 study estimated that 40% of all deaths are due to waterborne diseases. At the present time, however, only 28% of the population has access to safe water while only 8% are served by an effective sewerage system. Most of the rural people draw water from privately installed handpumps or from open streams, canals and ponds: a good number of these sources of water are bacteriologically polluted. Waste disposal facilities are generally poor in the cities and non-existent in towns and villages.

30. To overcome these deficiencies would require an enormous amount of investment as well as organizational effort. For the urban and rural poor, clean water can be provided through standposts and handpumps respectively. With unit costs of approximately Rs. 30 per capita for both the urban and rural population, this would mean an outlay of about Rs. 2.3 billion over a period of ten years. Sanitation facilities are somewhat more difficult to cost out. For rural areas, septic tanks, latrines and other low cost alternatives would be a more realistic alternative to modern high-cost sewerage systems. At an estimate cost of Rs. 120 per person in urban areas and Rs. 40 per person in rural areas, basic sanitation can be introduced at a cost of Rs. 6.2 billion. The total cost for meeting basic needs in water and sanitation would then be about Rs. 8.5 billion.

31. While the targets for basic needs in water and sewerage may be financially feasible, the larger issue is the administrative capacity of the sector to handle the increased program of development. The present situation finds the responsibility for water and sewer development fragmented among the provincial governments, with the Federal Government having only a small voice in overall planning and coordination. Local governments and municipalities are responsible for running systems

and collecting revenues once they have been constructed by the Provincial Governments. Urban water tariffs are far below even the operating costs of these services, with a result that often high income families are being subsidized. Tariffs range generally from Rs. 3.0 to 6.0 per month for unmetered domestic connections or less than half of the cost of providing the services and Rs. 1.0 to 2.0 per 1,000 gallons for metered domestic connection. Households without a water connection who buy water from vendors spend amounts ranging from Rs. 25-35 per month. The cost of providing clean water from standpipes in urban locations could be recovered by a nominal tax on property, and still result in a substantial improvement in the welfare of the poor.

### Housing

32. Little information is available concerning housing deficiencies in Pakistan, although it is apparent from casual observation that most of the population have some form of rudimentary housing and that the greater deficiencies are in the areas of sanitation and water supply. Improving the supply of housing available would be a very expensive and administratively difficult task if done solely through the public sector. Since the poor spend a significant (14%) proportion of their income on housing, most housing needs are more efficiently met by increasing incomes of the poor (see above). Additional work in the public sector can be undertaken, however, to provide plots (sites and services) for low income housing development. It is probable that of Pakistan's 16 million families, about 20% are living with serious housing deficiencies. Thus, there would be a need to develop about 3.2 million additional plots. By comparison, in FY77, the Annual Plan called for the development of 100,000 plots, which was double the level of the previous year, at a cost of about Rs. 500 per plot (land acquisition costs excluded). To develop 3 million plots by 1988 would mean increasing the current level of development by a factor of three (roughly 320,000 per year). This would entail a cost of about Rs. 1.6 billion over the life of the Plan, assuming that the institutional problems of administering such a large program could be overcome.

### The Total Basic Needs Investment Plan

33. Table 7 below provides estimates of basic needs investments in public sector that need to be made in the next ten years. These estimates suggest that:

- the development costs of meeting basic needs in general are not excessive; probably not more than 22 billion rupees over ten years (excluding development costs in agriculture which are assumed to take place whether a basic needs strategy for nutrition is pursued or not). Such a program of basic needs could be implemented by starting with an outlay of Rs. 1.3

billion in 1978 and increasing it at the rate of about 9.0% per annum to reach Rs. 3.1 billion by 1987. At this level of expenditure, the basic needs will claim about 10% of public sector outlays. This proportion is about twice that achieved during the Third Plan period (1965-70) but of the order proposed in the draft Fifth Plan for the 1977-83 period. However, the plan being proposed here implies somewhat less commitment of resources to the health sector but considerably more outlay in the sector of education;

- the major constraint on achieving full basic needs for the entire population is the inadequate level of institutional arrangements for handling social sector services, particularly in health and education; and the political and administrative obstacles to shifting the distribution of public services from urban elites to the rural and urban poor.

Table 7

Public Sector Development Costs for Basic Needs, FY78-87

(billions of rupees)

Education	Rs. 1.2
Health	
Rural Health	7.0
Preventive Health	3.0
Water	2.3
Sewer/Sanitation	6.2
Housing	1.6
Others	<u>0.7</u>
Total	Rs. <u>22.0</u>

Note: Rs. 9.9 = U.S. \$1.00



B. GOVERNMENT POLICY TO THE PRIVATE SECTORS MEETING  
BASIC NEEDS INDIRECTLY

34. In Pakistan certain basic needs can only be met by increasing outlays in the public sector. Those needs and the required expenditure in the public sector were described above. For a number of other needs - nutrition, clothing, shelter - the consumer, left to function in the market, would perform more efficiently than the public sector. At the present income levels prevailing in Pakistan, particularly among the poorer people raising incomes is a very efficient way of meeting basic needs. As seen in the Table below, low income households spend 85% of their income on such basic needs as food (60%), clothing (12%) and housing (14%). Miscellaneous goods and services, which account for 15% of total expenditures, include expenditures on health care not delivered by the public sector, transportation, laundry services and other items, which could be considered to be "basic needs" in the broader sense. Hence, raising incomes of low income groups can be considered to be a fairly effective way of meeting basic needs in Pakistan.

Table 8

Percentage Distribution of Monthly Consumption  
Expenditures Per Household 1972

	<u>All</u>	<u>Rural</u>	<u>Urban</u>	<u>All low Income</u>
Food and Drink	5.0	57.7	45.3	59.6
Clothing	10.6	11.0	9.7	11.6
Housing	13.9	12.0	18.2	14.2
Miscellaneous (including medical care)	20.5	19.5	22.8	14.6
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

35. One of the keys to raising incomes and productivity among the poor is the need to increase employment opportunities, and to spread investment widely through the labor force. It is in this area that the Government's investment program will need a major reorientation. In Pakistan, large scale manufacturing, although it accounts for 85% of the value added in all manufacturing, accounts for only 20% of the employment. Employment in small scale industries has, in fact, declined since 1970 as a result of labor displacement, the drift of rural artisans to urban employment centers, and the emphasis the government has placed on the development of large scale industries. Not only do investments in large scale industries with their high capital output ratios increase the productivity and presumably incomes of a few, but they may actually displace as many employees from the small scale sector as they add to the large scale. Between 1970 and 1973, for instance, total large scale employment increased by 22%, but this was offset by a decline in small scale employment such that total manufacturing employment remained unchanged while declining as a share of the total. Agriculture and services absorbed the bulk of the increase in the labor force.

36. Small scale industries are clearly more efficient users of capital than the large scale units. Surveys show that small scale units have capital-output ratios that are half of the level of those in the large scale sector, while they employ three times more workers for every unit of capital invested. Capital productivity and employment effects are even greater in the smaller household units which are excluded from these surveys. Small scale manufacturers tend to have strong backward linkages to domestic agriculture and are least dependent upon imports of raw materials and equipment. There are indications that they are able to generate comparable levels of profits in relation to capital invested, despite fewer subsidies, greater competition and being faced with higher interest rates. Although the small scale industrial sector has been very important in providing the people with their consumer needs has also greatly contributed to increasing the country's exports, its growth in recent years has not been as high as the large scale manufacturing sector. This was in part due to its inability to compete on an equal footing with the relatively few, privileged large firms receiving special treatment in the allocation of import licenses at unrealistic exchange rates. While some of these distortions have been corrected, small firms still find great difficulty in obtaining sufficient credit and adequate technical advice.

37. If the institutional obstacles to increasing investment in small scale industries can be overcome, the potential impact on employment and income for the poor is considerable. The reason for this derives from the high capital/labor ratio prevailing in large scale industry, particularly in the public sector. The Karachi Steel Mill, for instance, will require

one million rupees (\$100,000) of investment for every job it creates. Investments in the private sector generally take about Rs. 200,000, while those in the small scale sector require only Rs. 5,000. The draft Fifth Plan, extrapolated to FY87, allocates Rs. 77 billion to manufacturing, of which all but Rs. 5 billion goes to the large scale sector. Consequently, the employment created is only about 1.2 million jobs in the period of ten years, over the level of 2.8 million currently employed in manufacturing. While over 90% of the investment is going to the large scale sector, it accounts for only about 15% of incremental employment. The BN Plan proposed here, however, suggests a reduction in large scale public sector investment in favor of a reallocation both in the private large scale and the private small scale sectors. By tripling the investment in small scale industries, additional employment of 2.0 million could be created. Total incremental employment could absorb one-third of the increase in the labor force, compared to only one-ninth in the Original Plan.

Table 9

Alternative Industrial Investment and  
Employment Patterns  
FY78-87

	Employment 1977	Investment FY78-87 (Rs. bil.)	K/L (Rs/worker)	Incr. in Emp1. FY78-87	Total Employment FY87
<u>Original Plan</u>					
Large scale: public	100	57	500,000	115	215
private	420	15	200,000	75	495
Small scale	<u>2,250</u>	<u>5</u>	5,000	<u>1,000</u>	<u>3,250</u>
Total	<u>2,770</u>	<u>17</u>		<u>1,190</u>	<u>3,960</u>
<u>BN Plan</u>					
Large scale: public	100	40	500,000	80	180
private	420	20	200,000	100	520
Small scale	<u>2,250</u>	<u>15</u>	5,000	<u>3,000</u>	<u>5,250</u>
Total	<u>2,770</u>	<u>75</u>		<u>3,180</u>	<u>5,950</u>

38. Could this be accomplished? First of all, it appears that the Original Plan was conservative in its investment assumptions for the small scale sector, since its proposed average of Rs. 500 million per year is equal to the level attained in FY76, and would mean no real increase in ten years. While the Rs. 1.5 billion figure would imply a tripling, this could be phased over the ten year period. For instance, the Rs. 1.5 billion cumulative total could be achieved by maintaining a 20% growth rate in small scale investment. But would it be effective? In the recent past, investment in small scale industries has not produced an overall increase in employment, largely because while small factories have expanded, output and employment in household enterprises has declined. Decreasing investment in large scale industries, however, will lessen the competition faced by rural artisans from large scale products, and hopefully arrest their migration to urban centers.

39. Past drafts of the Fifth Five Year Plan, while giving much emphasis to the need to create employment opportunities, have never detailed how they would be created, and assumed that the bulk of the labor force would continue to be absorbed into agriculture, services and small scale industry. At the same time, a number of policies have been continued which work against employment creation. Tax and tariff policies for instance, together with an over-valued exchange rate, tend to reduce the real cost of capital to the industrial sector. Many of these policies have been instituted with the idea of promoting investment as a means to promote growth, without any consideration to the objective of promoting employment. Investment incentives, by their very nature, tend to make capital cheaper. At the same time, the Government, since 1969, has instituted a series of labor reforms which increased real wages by 28% between FY70 and FY75. These reforms included increases in mandated minimum wages, increased profit sharing, increases in pensions, leave and other fringe benefits, and greater powers given to labor unions to organize workers. At the same time, wages in other sectors were stagnant or declined slightly. As a result, industrial wages in 1975 were 40% higher than their equilibrium level, while the market price of capital was about 20% less. These distortions in factor prices can be reversed by Government actions, once the objective of increasing employment is recognized to be as important as increasing output.

40. Shifting relative factor prices toward labor, should result in greater investment and growth in the more labor intensive manufacturing sectors and the use of more appropriate, capital saving, technology within sectors. The increase in incentives for industries in labor intensive sub-sectors should also mean the development of products which have the greatest export potential. The rapid growth of manufactured exports from the small scale industrial sector is an indication that export development along the lines indicated by relative factor endowments is an efficient way to proceed. Pakistan's experience with capital intensive import

substituting industries, whether in the private or public sector, is that they generally consume a larger amount of domestic resources to per unit of foreign exchange saved, in addition to their low employment potential. Consequently, a strategy that emphasizes labor intensive production techniques, besides increasing employment opportunities, should result in a more efficient use of scarce capital resources.

41. In advocating a program of employment oriented growth the Government could undertake to:

- increase tariffs on imported capital goods (now about 10%) to at least the average level of other commodities (about 25%);
- remove tax incentives for investment and reshape the tax system to offer incentives for employment creation;
- reduce the public sector investment program in heavy industry, and shift it toward manufacturing activities with export potential such as shoes, electronics, food products and garments;
- hold down further increases in minimum wages and benefits for industrial workers so that in real terms wages decline or at least do not increase; and
- develop more imaginative programs to assist small scale industrial employers with credit, marketing and other problems.

### III. THE MACRO-ECONOMICS OF THE BASIC NEEDS STRATEGY

42. Ignoring for the present the institutional problems, the previous section has indicated that the total costs of meeting basic needs over ten years might be as low as Rs. 22 billion (ignoring the development costs in agriculture which are assumed to occur whether or not a basic needs approach is taken up). The question is how does this fit into the overall macro-economic growth pattern of the future, and the likely level of available resources for development.

43. Besides meeting basic needs through accelerated social sector programs and increased private consumption, Pakistan must also face some other serious problems. Since 1970, the overall growth of output has averaged 3.6%, barely fast enough to keep pace with the growth of population. Growth rates in manufacturing and agriculture were even lower (1.7 and 2.2% per annum, respectively). <sup>1/</sup> At the same time, the Government has made a tremendous effort to increase the rate of investment to 19% of GDP in FY77, compared with 11.5% in FY73. Some of this increase in investment was necessary to restore infrastructure and social sector programs which had been reduced in prior years. A large portion, however, represented new initiatives in public sector industries, particularly steel, fertilizers, chemicals and heavy machinery, plus rapid expansion in transport and power sectors, much of which was unnecessary and/or uneconomic.

44. At the time the investment rate was being increased, however, the rate of savings was falling, reaching at one point a low of 4% of GDP. Even in 1977, the rate of domestic saving is about 9% of GDP, so that almost half of the investment program is being financed by foreign capital.

45. The availability of concessionary capital from abroad has been a major factor explaining why Pakistan has not had to either reduce its investment program or increase domestic saving until now. In recent years, the decline in OPEC aid has been offset, somewhat, by significant increases in workers' remittances. With debt service already high because of the borrowings in prior years it seems clear that net capital inflows at present levels will have to decline. This implies a higher rate of domestic saving, or a lower investment rate, or both. If per capita consumption and domestic saving are both to be increased, then a rapid growth of output is required. This is the strategy of the current Plan, which calls for a 7.6% annual growth rate, including 6.2% in agriculture and 13% in large scale manufacturing. Such targets are so clearly out of line with past performance and likely possible future growth, that they do not form a meaningful framework for discussing resource mobilization and expenditure problems. At the most, an overall growth rate of no more than 6.0% would be possible, barring unforeseen events such as extremely adverse weather, etc. This would be consistent with a 4.5% growth rate in agriculture and a 7.0% growth rate for manufacturing, and would be very similar to the record of the 1960's. During the period FY65-70, for instance, agriculture grew at a rate of 6.3% per year with an 8.7% annual growth rate in industry, or an overall average of 6.7%.

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<sup>1/</sup> Growth rates calculated here are based on least squares trend estimates for the FY70-77 period, using constant price value added data.

46. It is difficult to judge all of the ramifications of a shift to a basic needs (BN) strategy. The movement towards a less capital intensive strategy implies lower investment requirements of any given growth target. On the other hand, the basic needs approach might raise consumption by increasing incomes for lower income groups who have higher marginal propensities to consume, and thus lower overall saving. In order to examine the issue of savings-capital efficiency tradeoffs, assumptions concerning relevant macro-economic variables have been combined in a simple growth model. In this model, the growth rate of GDP is determined by the level of investment and the incremental capital-output ratio. The level of investment is defined as the sum of saving and foreign inflows, which for the purposes of the model are assumed to decline over time (from Rs. 15.5 billion at present to Rs. 12.0 billion by 1987). A marginal savings rate (MSR) determines saving from incremental GDP. For the base case, which assumes an investment pattern similar to that of the draft Fifth Plan, the ICOR is set to 3.5 and the MSR to .15. Under these conditions, the economy grows at a 5.1% average rate, considerably lower than the 7.6% of the draft Fifth Plan. For the "BN-employment" strategy, the ICOR is assumed to fall to 2.7, reflecting less capital intensive investments in industry and agriculture. At the same time, however, emphasis on employment income growth for low income groups is assumed to lower the MSR to .10. Despite the lower savings rate, the GDP growth rate under this strategy reaches 6.0% for the decade. <sup>1/</sup>

47. Rather than being detrimental to growth prospects, the conclusion that emerges from this simple model is that a BN strategy could increase the rate of growth. This answer depends, however, on the way in which basic needs are met. If the structure of production is not changed, and basic needs are met through income transfers, then the ICOR would not fall, although the savings rate would. Under this "BN-transfer" strategy, the model suggests that the overall growth rate of GDP could fall to 4.8%.

Table 10  
Alternative Growth Scenarios

<u>Scenario</u>	<u>MSR</u>	<u>ICOR</u>	<u>Growth Rate of:</u>		
			<u>GDP</u>	<u>Per Capita Consumption</u>	<u>Population</u>
Original (Plan)	.15	3.5	5.1	.7	4.1
BN-Employment	.10	2.7	6.0	3.5	2.3
BN-Transfer	.10	3.5	4.8	2.5	2.3

<sup>1/</sup> This rather unexpected result (higher growth under BN) is a product, to a certain degree, of the structure of the model. In the long run, in fact, the results could be reversed (see Annex I for a more complete discussion of this model).

In either case, however, the BN approach produces a more rapid rise in per capita consumption since it materially lowers the population growth rate. Whether the results would be as dramatic as indicated here is somewhat unclear, since the relationship between BN and population growth is a very uncertain one. In addition, the higher growth rate of population could itself help accelerate output by augmenting aggregate demand. Another issue omitted here is the factor intensity of the BN goods and services. If they are not intensive in unskilled labor, the BN strategy might be counterproductive since the real wages of the poor could fall. Also ignored is the possible impact on the balance of payments of rising incomes for the low income groups. This might reduce the available surplus of foodgrains for export, while also reducing the demand for expensive and imported consumer durables.

### Investment Plan

48. In the BN strategy, the overall investment rate is assumed to fall from 19% to 14% of GDP by 1987. To attain the objective of meeting all basic needs by 1987 requires, as outlined above, public sector investment of about Rs. 22 billion during the 1978-87 period. With approximately Rs. .7 billion being invested in Basic Needs at present, an indicative investment plan for basic needs calls for a doubling of this rate to Rs. 1.3 billion for FY78, and a gradual rise to Rs. 3.1 billion by FY87. At this rate, BN investment would equal about 1% of GDP, or about 7% of total investment over the period. <sup>1/</sup> While these figures clearly represent only orders of magnitude, they indicate that meeting basic needs does not require a large proportion of total resources, and does not place an impossible burden on the economy. Neither does it require a large increase in government employment or bureaucratic controls. Likewise, it implies reduced rather than increased price and market distortions.

Table 11

Macro-Economic Framework, BN Strategy  
(Rs. millions, 1977 prices)

	1977	1987	Growth Rate	Percent of GDP	
			1977-87	1977	1987
Gross Domestic Product	144.7	257.8	6.0	100.0	100.0
Private Consumption	117.8	206.8	5.8	81.4	80.2
Government Consumption	15.0	26.9	6.0	10.4	10.4
Total Consumption	132.8	233.7	5.8	91.8	90.7
Fixed Investment	27.2	34.0	2.3	18.8	13.2
Changes in Stocks	1.0	1.0	-	.7	.4
Total Investment	28.2	36.1	2.5	19.5	14.0
Exports	13.9	31.5	8.5	9.6	12.2
Imports	29.4	43.5	4.0	20.3	16.9
Resource Gap	15.5	12.0	-	10.7	4.7
Domestic Saving	12.7	24.1	-	8.8	9.3

<sup>1/</sup> Or about 10% of public sector investment. In addition, a substantial amount of investment, particularly in housing, would be undertaken by the private sector. This private sector BN investment has not been included in the Rs. 22 billion.



Table 12  
Investment Plan FY78-87  
(Rs. billions)

Fiscal Year	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	Cumulative Total FY78-87	% of Total
GDP	144.7	154.6	165.1	175.8	186.8	198.0	209.4	221.0	232.9	245.1	257.8	2,046.5	100.0
I-NBN	26.5	27.4	27.8	28.2	28.6	29.0	29.4	29.9	30.9	31.9	33.0	296.1	14.4
I-BN	.7	1.3	1.5	1.7	1.9	2.1	2.3	2.5	2.7	2.9	3.1	22.0	1.1
I-Total	27.2	28.7	29.3	29.9	30.5	31.1	31.7	32.4	33.6	34.8	36.1	318.1	15.5
I/GDP	18.8	16.6	17.7	17.0	16.3	15.7	15.1	14.7	14.4	14.2	14.0		

I-NBN = Investment - nonbasic needs  
I-BN = Investment - basic needs

49. In contrast, the draft Fifth Plan calls for a total investment of Rs. 225 billion, of which Rs. 163 billion would be in the public sector for the six years FY78-83. Extrapolating for the ten year period this would mean total investment of Rs. 375 billion, compared to the estimate made in this paper of Rs. 318 billion. The need to reduce the overall investment program by 15% arises from the more conservative estimate of likely available resources. The BN strategy will also require a certain amount of reorientation of the public sector program, particularly in increasing the shares of the social sectors, while reducing the allocations for industry and infrastructure. Even within the social sectors, the BN strategy implies certain important reallocations, such as a reduction of expenditures on higher education and an increase in primary education. Likewise, in the infrastructure area, greater attention can be directed at rural roads, village electrification and similar projects which have a large number of beneficiaries among the lower income groups. In the past, the commitment to capital intensive projects in industry and infrastructure has often pre-empted funds for the social sectors. Unless the investment program is adjusted early in the Plan period, it will be impossible to meet the allocations for Basic Needs.

Table 13  
Public Sector Investment, FY78-87  
(Rs. billion)

	<u>Extrapolated Fifth Plan</u>		<u>BN Strategy</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Agriculture-related</u>	<u>52.5</u>	<u>19.3</u>	<u>52.0</u>	<u>22.5</u>
Agriculture	20.8	7.7	22.0	9.5
Water	31.7	11.6	30.0	13.0
<u>Heavy Industry</u>	<u>167.7</u>	<u>61.7</u>	<u>119.0</u>	<u>51.5</u>
Manufacturing	56.7	20.9	30.0	13.0
Transport & Communication	51.5	18.9	40.0	17.3
Fuel and Power	54.5	20.1	45.0	19.5
Minerals	5.0	1.8	4.0	1.7
<u>Social Sectors</u>	<u>51.5</u>	<u>19.0</u>	<u>60.0</u>	<u>26.0</u>
Physical Planning	14.8	5.5	20.0	8.7
Education	17.2	6.3	18.0	7.8
Health	16.0	5.7	20.0	8.7
Social Services & Others	<u>3.5</u>	<u>1.3</u>	<u>2.0</u>	<u>.8</u>
<b>Total</b>	<u><u>271.7</u></u>	<u><u>100.0</u></u>	<u><u>231.0</u></u>	<u><u>100.0</u></u>

50. The indicative reallocations under the basic needs approach results in an increase in the share for social sectors from 19% under the original plan to 26%. The heavy industry sectors (manufacturing, transport, communications, power, fuel) are reduced from 60% to about 51%, while agriculture and water are increased slightly. To accomplish this realignment of the investment program, while also reducing the total, means major reductions or deferments. Some projects, such as those in steel, heavy equipment, chemicals, etc., can be eliminated altogether. <sup>1/</sup> In the case of the steel mill, this would mean stopping a project that has already begun. Some investments in power, transport and other infrastructure can be deferred by extracting

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<sup>1/</sup> A more complete description of these projects is contained in Annex II.

greater efficiencies from the existing capital stock, which is often underutilized. Several projects which are being built mostly to enhance national prestige, can easily be eliminated. These include the Indus Super Highway, the Islamabad Sports Complex, nuclear power plants and certain road investments in the Frontier and Baluchistan provinces. These two provinces, which contain only 20% of Pakistan's total population, contain some of the most severe forms of poverty. Special attention needs to be directed to these regions to find investments that make use of local resources, as well as to insure that social sector investments reach the rural poor.

#### IV. INSTITUTIONAL CHANGES

51. As indicated above, the resource requirements for meeting basic needs for Pakistan are not very high; public sector expenditure for providing basic education, health and sanitation to the population would amount to only 1% of the GNP and 10% of investment. However, the program outlined above indicates fairly significant changes in both the priorities in public sector investments as well as in the policies aimed towards the private sector. The public sector resource flow to social services would double and lesser priority would be assigned to investment in large scale industries. The government policies towards economic development would also need to be reoriented towards developing the small farmer sector and small scale enterprises: the first for increasing the level of nutrition of the underprivileged in the rural areas and the second for increasing the income of non-farm labor. In order to implement these policy changes, Pakistan will need to evolve institutions that would:

- provide participation in decision-making to people at all levels - villages, towns, cities, provinces and the nation;
- insure that the poor would receive the benefits intended to go to them; and
- provide for a mechanism which would make possible the implementation of a development strategy in which a number of small projects would be executed in thousands of villages in all parts of the country.

52. The most efficient way for bringing about this institutional development is to create a system of local government which would be responsible for undertaking the development of education, health and sanitation facilities in villages, towns and cities. Such a system of local government existed in Pakistan during the 1960's. There is evidence that this system succeeded in generating both the resources for social sector development as well as involving people in the process of decision-making. A similar system, without the political overtones that lead to the demise of the old structure, should be evolved once again. The main features of this system should be:

- interlocking bodies at various levels. This implies a multi-tiered structure in which representative councils exist at the levels of villages, towns, districts and provinces;
- independent resource base for all local bodies. There is evidence that the people in Pakistan are prepared to pay for such services as drinking water, curative health and higher education if they have a role in maintaining them; and

- integration of local body programs into a national development framework. Such an integration would ensure that the federal and provincial governments would aid the social development efforts of the local bodies rather than work at cross purposes with them.

53. Under such a system local government would be responsible for the construction, improvement, and maintenance of 50,000 primary schools; training of 200,000 additional teachers; construction and maintenance of 7,500 health units in as many villages, towns and cities; selection for training of 10,000 auxiliary health workers to work in health units and provision of water and sanitation facilities in all villages and urban areas.

54. The local governments could also play an important role in providing credit and agricultural inputs to the small farming sector. At present, agricultural credit is being made available mainly to the farmers who produce for the market; to make resources available to the small farmers producing for subsistence may require a cooperative arrangement under the supervision of local bodies. A successful example of such a link is to be found in the Comilla experiment of the 1960's and could be adapted to meet the situation in Pakistan. The main features of such a system are to build a cooperative rural banking activity under the control of local bodies. With such a system working, the local bodies could also direct capital into the small scale enterprises.

55. The establishment of a system by local government alone would not ensure that the demands and aspirations of the poor people would be fully met. Such an effort would also require that the present leadership groups recognize that by ignoring the demand of the poor for meeting basic needs, they could pay a high political price. Such a perception seems to exist. Under Bhutto, Pakistan made some efforts to redistribute incomes to the poor segments of the population as well as improve public services aimed at them. The efforts made then did not amount to very much because they were essentially of "ad hoc" nature without any institutional backing. Without a system of local government, providing opportunities for participation and management to the local communities, it would not be possible to implement a strategy aimed at providing people with their basic needs; with such a system the cost of implementing it may be even lower than that suggested above.

A Simple Macro Model

The macro economic section of this paper employs a simple macro model to provide some consistent projections of the economy within the framework of certain predetermined assumptions. The model is basically of the Harrod-Domar type, in which the level of investment determines the rate of growth of GDP, given some value for the incremental capital output ratio (ICOR or  $k$ ). Investment ( $I$ ) is itself determined by the sum of domestic saving ( $S$ ) and foreign capital inflows (RG or resource gap). Population is a function of a predetermined growth rate, and consumption of the difference between GDP and saving, thus permitting the calculation of per capita consumption.

In equation form, there are two behavioral equations for output (GDP or  $Y$ ) and saving, and four definitional equations for investment, consumption, population and percapita consumption. First, output is a lagged function of prior year investments, assuming a two-year lag with equal weights for the lagged years, and an incremental capital output ratio ( $k$ ):

$$Y_t = Y_{t-1} + (.5 I_{t-1} + .5 I_{t-2}) \frac{1}{k}$$

The level of saving depends on prior year saving and the marginal savings rate ( $s$ ) and the increment to GDP:

$$S_t = S_{t-1} + s (Y_t - Y_{t-1})$$

Investment and consumption can be defined as:

$$C_t = Y_t - S_t$$

$$I_t = S_t + RG_t$$

Given a population growth rate (g), the population level for any year can be defined and the level of per capita consumption calculated:

$$P_t = P_{t-1} (1 + g)$$

$$PCC = C_t / P_t$$

For this paper, the capital inflow is assumed to decline from Rs. 15.5 billion in FY1977 to Rs. 12 billion in FY1987. This assumption holds for all cases, even though it might be argued that the pursuit of a basic needs strategy might well lead to greater availabilities of foreign capital.

Three different scenarios have been calculated with this model. First, an "Original Plan" version assumes the patterns of investment as indicated by the Plan, but overall performance considerably less than targeted. Because of the lower growth of output and lower savings rate, the level of investment indicated in this version is actually considerably lower than the Plan's level as well (Rs. 187 billion vs. Rs. 225 billion for the period FY1978-83.) The "BN-Employment" version assumes a lower ICOR, and a lower marginal savings rate, both as a result of pursuing a basic needs strategy that includes the development of more labor-intensive investments in industry and agriculture. The last version, "BN Transfer", assumes that the basic needs strategy is followed, but without a change in the structure of production, thus necessitating a considerable transfer of income from the rich to the poor. This is incorporated into the model by allowing a decline in the marginal savings rate, while holding the ICOR equal to the "Original Plan" version. The specific assumptions for parameters are shown in the table below, along with the detailed projections

for each version. Projections have been carried out for the period FY1978-87, with FY1977 being the base year.

<u>Item</u>	<u>Original Plan</u>	<u>Model Assumptions</u>	
		<u>BN-Employment</u>	<u>BN-Transfer</u>
k	3.5	2.7	3.5
s	.15	.10	.10
g	4.1	2.3	2.3

The model is extremely simple, and many interesting relationships have not been included. For instance, the rate of population growth could have a major impact on the growth of output by its effect on aggregate demand. The shift to basic needs could increase or decrease the demand for labor, imports and other factors and commodities. Lastly, the results for the growth rates reported here (see para.44) apply only to the ten year period through 1987, and if the current assumptions were to hold for a longer period, the results could be reversed. Specifically, the BN-Employment assumptions if carried further will actually result in a lower rate of growth than the Original Plan version. The reason for this is that in the very long run the rate of growth will approach the value of  $s/k$ . It is not proposed here, however, that the values of  $s$  and  $k$  used through 1987 would necessarily be those which would be valid beyond 1987.



MODEL RESULTS

Original Plan Version

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	Cumulative Total 1978-87	% of GDP	Growth Rate 1977-87
Y	144.7	154.6	162.8	171.2	179.9	188.8	197.9	207.3	216.9	226.8	237.2			5.1
I	28.2	29.2	29.9	30.7	31.5	32.3	33.2	34.1	35.5	37.0	38.6			3.2
S	12.7	14.2	15.4	16.7	18.0	19.3	20.7	22.1	23.5	25.0	26.6			7.7
C	132.0	140.4	147.4	154.5	161.9	169.5	177.2	185.2	193.4	201.8	210.6			4.9
RG	15.5	15.0	14.5	14.0	13.5	13.0	12.5	12.0	12.0	12.0	12.0			-2.5
PCC	1650	1685	1700	1713	1724	1733	1741	1747	1753	1756	1761			.7
I/Y	19.5	18.9	18.4	17.9	17.5	17.1	16.8	16.4	16.4	16.3	16.3			
S/Y	8.8	9.2	9.5	9.8	10.0	10.2	10.5	10.7	10.8	11.0	11.2			
P	80.0	83.3	86.7	90.2	93.9	97.8	101.8	106.0	110.3	114.9	119.6			2.3

Units: Y, I, S, C & RG = billions Rs.

PC = Rs.

P = millions people

I/Y, S/Y = percentage

Parameters:

k = 3.5

s = .15

p = .041

MODEL RESULTS

BN - Employment Strategy

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	Cumulative Total 1978-87	% of GDP	Growth Rate 1977-87
Y	144.7	154.6	165.1	175.8	186.8	198.0	209.4	221.0	232.9	245.1	257.8			6.0
I	28.2	28.7	29.3	29.9	30.5	31.1	31.7	32.4	33.6	34.8	36.1			2.5
S	12.7	13.7	14.8	15.9	17.0	18.1	19.2	20.4	21.6	22.8	24.1			6.6
C	132.0	140.9	150.3	159.9	169.8	179.9	190.2	200.6	211.3	222.3	233.7			5.9
RG	15.5	15.0	14.5	14.0	13.5	13.0	12.5	12.0	12.0	12.0	12.0			-2.5
PCC	1650	1722	1796	1868	1938	2008	2074	2139	2201	2264	2328			3.5
I/Y	19.5	18.6	17.7	17.0	16.3	15.7	15.1	14.7	14.4	14.2	14.0			
S/Y	8.8	8.9	9.0	9.0	9.1	9.1	9.2	9.2	9.3	9.3	9.3			
P	80.0	81.8	83.7	85.6	87.6	89.6	91.7	93.8	96.0	98.2	100.4			2.3

Units: Y, I, C, S & RG = billions Rs.

PC = Rs.

P = millions people

I/Y, S/Y = percentage

Parameters:

k = 2.7

s = .10

p = .023

MODEL RESULTS

BN - Transfer

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	Cumulative Total 1978-87	% of GDP	Growth Rate 1977-87
Y	144.7	154.6	162.7	170.9	179.2	187.6	196.1	204.7	213.4	222.3	231.5			4.8
I	28.2	28.7	29.0	29.3	29.6	29.9	30.3	30.7	31.6	32.5	33.4			1.7
S	12.7	13.7	14.5	15.3	16.1	16.9	17.8	18.7	19.6	20.5	21.4			5.3
C	132.0	140.9	148.2	155.6	163.1	170.7	178.3	186.0	193.8	205.5	210.1			4.8
RG	15.5	15.0	14.5	14.0	13.5	13.0	12.5	12.0	12.0	12.0	12.0			-2.5
PCC	1650	1722	1771	1818	1862	1905	1944	1983	2019	2055	2093			2.4
I/Y	19.5	18.6	17.8	17.1	16.5	15.9	15.5	15.0	14.8	14.6	14.4			
S/Y	8.8	8.9	8.9	9.0	9.0	9.0	9.1	9.1	9.2	9.2	9.2			
P	80	81.8	83.7	85.6	87.6	89.6	91.7	93.8	96.0	98.2	100.4			2.3

Units: Y, I, C, S & RG = billions Rs.

PC = Rs.

P = millions people

I/Y, S/Y = percentage

Parameters:

k = 3.5

s = .10

p = .023

Budgetary Adjustments for the BN Strategy

Development Spending

For the six year period FY1977-83, the Plan calls for an expenditure of Rs. 225 billion, of which Rs. 163 billion is in the public sector. This results in a 19% investment rate, provided the economy grows at 7.6% per annum. With a slower growth rate, the investment program would have to be reduced, or the investment rate would rise to unsupportable levels. The BN-Employment Strategy projections shown in Annex I indicate an investment of only Rs. 181 billion or Rs. 130 billion for the public sector (maintaining a 72% share).

In addition, the movement to a BN strategy would entail the expenditure of Rs. 22 billion (see para. 30 in text) for the ten year period, or Rs. 13 billion for the Plan period. Approximately Rs. 2 billion can be saved, however, by reallocating within the social sectors. For instance, the Rs. 5 billion allocated for secondary schools, colleges and universities could be reduced, as well as the large allocation for medical schools and the cost of doctor training. Some expenditures within the Plan are already scheduled to meet basic needs. While it is difficult to isolate these exactly, we estimate this to be about Rs. 8 billion. Thus the Basic Needs approach will add only Rs. 3 billion to social sector spending during the life of the Plan. The non-social sector expenditures need to be reduced by Rs. 39 billion (Rs. 163 - 130 + 3). The attached table indicates areas which could be cut. Clearly, the major need for reductions of this kind arises not from the adoption of the BN strategy, but from the need to bring expenditures in line with resources. In the past, the social sectors have borne the brunt of reductions caused by lack of funds, in part because they are more easily reduced than capital intensive industrial and

infrastructural projects with long lead times. Reducing the industrial and infrastructure expenditures, particularly early in the Plan period, is really an integral part of preserving the allocations for basic needs.

Possible Reductions in Fifth Plan Development Expenditures  
(Rs. billions)

<u>Industry</u>	
Cotton Spinning	2.0
Cotton Weaving	1.6
Sugar	3.8
Soda Ash/Caustic Soda	.7
Karachi Steel	10.5
Tractor	1.2
Transport Equipment	<u>1.3</u>
	21.1
<u>Power</u>	
Chasma Nuclear	6.5
Lakhra Coal (partial)	<u>1.0</u>
	7.5
<u>Transport &amp; Communications</u>	
Railway (partial)	2.0
Indus Super Highway	2.0
Strategic Roads	1.0
Coastal Highway	.6
"Other Roads"	4.0
Port Qasim	1.7
Telecommunications (partial)	<u>1.0</u>
	12.3
Miscellaneous	<u>5.0</u>
GRAND TOTAL	<u><u>45.9</u></u>

Approximately Rs. 21 billion could be taken from the industrial sector, including Rs. 11 billion allocated to the steel mill. While the steel mill is already about 25% completed, most of this is in the form of housing, shops, and transport facilities which could be reallocated for alternative uses. Eliminating the steel mill would also permit the dropping of Port Qasim and some other

related infrastructure investments from the Plan. The losses incurred from stopping the steel mill now are probably less than those likely to be incurred from operating the mill at a loss. This is bound to happen, since the mill is both too small to realize scale economies (hence no export potential) and too big for the domestic market (hence cannot operate at full capacity). Similar but smaller investments in chemicals and heavy machinery do not offer sufficient scale economies to compete effectively against imports, and will result only in higher costs for the consumer. Investments in sugar refining are unnecessary, merely replacing the more labor intensive production of local crude sugars (gur, etc.), and produce a product which is largely consumed by high income groups.

In the power sector, investments are envisioned which are in excess of likely demand and can be deferred outside of the Plan period. The Chasma Nuclear Plant will produce energy at twice the cost of hydro and gas turbine investments, and might be dropped altogether in favor of some alternative source. Substantial gains can be made by smaller investments in the distribution system, which presently loses 30% of the power produced. In the transport/communications sector, a number of investments can be deferred or dropped, since they either add excess capacity or have little or no economic value. The latter include the Indus Super Highway, the Coastal Highway, and Lowari Tunnel (part of the "Other Roads"). Planned investments in railways and telecommunications can be reduced and better use made of existing capacities. In addition to the specific projects listed here there are a number of smaller items which together would furnish reductions of Rs. 5 billion. These include reductions in expenditures for the Islamabad Sports Complex, expansion of television broadcasting, and certain other projects of low priority. The total of these reductions comes to Rs. 45.9 billion, somewhat more than the indicated total of Rs. 39 billion.

Recurrent Spending

The impact of recurrent costs for meeting BN on the Government's budget are somewhat difficult to estimate. The greatest increase would come in the education field. At Rs. 150 per student per year, the cost of educating 9.4 million students would be Rs. 1,410 million annually. In the health field a BHU costs about Rs. 78,000 to operate, and an RHC about Rs. 193,000 (these estimates based on draft Fifth Plan, vol. 2). For an additional 6,000 BHU's and 1,000 RHC's, the annual cost would be Rs. 661 million. To this is added Rs. 300 million to cover the recurrent costs of staff training, plus miscellaneous costs, resulting in a total for health of Rs. 961 million. In water supply/sanitation, the recurrent costs are fairly low, even though the development costs are high. Furthermore, some of these costs can be recovered from the user. An amount of Rs. 800 million is somewhat arbitrarily set aside to cover these costs, although this is probably too high. The result is an increase in recurrent costs of Rs. 3171 million (Rs. 3.2 billion). At present recurrent expenditures in the combined federal/provincial budget is about Rs. 22 billion. If this grew at 6%, by 1987 it would equal about Rs. 40 billion (in 1977 prices). If 3.2 is added to the 40 billion, the growth rate of recurrent expenditures would rise to 7%. Even if these estimates are for BN recurrent costs are wrong by a factor of 2, the growth rate would be less than 8%. Consequently, the recurrent cost implications of the basic needs strategy do not appear overwhelming.

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Distribution:

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REYURLET OF NOVEMBER 7 - UNESCO AND BHN

1. A FIRST REFERENCE TO BHN APPEARED IN RESOLUTION 19 C 100 ADOPTED ON NOVEMBER 29, 1976 AT UNESCO'S 19TH GENERAL CONFERENCE IN NAIROBI, KENYA.

2. UNESCO EXECUTIVE BOARD DISCUSSED ALSO BHN DURING ITS 103RD SESSION ON THE BASIS OF DOCUMENT 103EX/4 PREPARED BY THE SECRETARIAT (DOCUMENT 103EX/4 WAS FORWARDED TO WASHINGTON ON OCTOBER 10, AS ANNOUNCED IN HENRI BRETAUDEAU'S MEMO TO MRS BOSKEY OF SAME DATE). SUMMARY OF DISCUSSIONS AT THE 103RD EXECUTIVE BOARD HAS NOT YET BEEN RECEIVED BY THIS OFFICE, BUT IS DUE BY THE END OF THIS WEEK. WE WILL SEND THEM TO YOU AS SOON AS POSSIBLE.

3. BRETAUDEAU WILL PREPARE FOR MR AKLILU'S VISIT TO PARIS, A COPY OF RESOLUTION 19 C 100 AND OF DOCUMENT 103EX/4 AND A SUMMARY OF THE DISCUSSIONS ON BHN AT THE 103RD EXECUTIVE BOARD MEETING.

REGARDS

CARRIERE



November 7, 1977

Mr. Jean P. Carriere  
Director  
European Office  
66 Avenue d'Iena  
75116 Paris, France

Dear Jean:

Mr. Aklilu, Director of the Education Department, will be in Paris at the end of this month and, when he comes into the Bank Office, he would very much like to have available for him a copy of the report of UNESCO's most recent Executive Board meeting. I think it may not yet exist but, if it soon becomes available, could you please arrange for a copy to be picked up for him?

The background of this request is as follows. Mr. Najman, the UNESCO Assistant Director-General, met with Mr. McNamara just before the recent ACC meeting and, in the course of their discussion, expressed concern about the current interest in "basic needs", saying that UNESCO does not know what the basic needs in education are, and with the clear implication that if UNESCO does not, the Bank most assuredly cannot. Apparently the subject of basic needs was discussed at the last Executive Board meeting and Mr. Aklilu, who wants to learn something more of the reasons behind UNESCO's concern, thinks that the report of the Executive Board meeting may shed some additional light. I think we may either regularly or occasionally receive these reports in any case, but it would be more convenient for Mr. Aklilu to see it in Paris.

Many thanks for your trouble.

Sincerely,

Shirley Boskey  
Director  
International Relations Department

SEBoskey/rob

cc: Mr. Aklilu

## OFFICE MEMORANDUM

TO: Mr. Robert S. ~~McNamara~~

DATE: October 28, 1977

FROM: Shirley Boskey, Director, IRD *SB*SUBJECT: References to "Basic Needs" at the IACB Meeting

At yesterday's meeting of UNDP's Inter-Agency Consultative Board, composed of U.N. agency heads, there were some references to anti-poverty strategies and to basic needs which may be repeated in interventions at the ACC.

1. In his opening remarks, Brad Morse said that the agencies were devoting a substantial portion of their collective efforts to anti-poverty activities but added that some developing countries were concerned that the anti-poverty emphasis might divert attention from the "imperatives" of a new international economic order and that they wondered why donor countries were so concerned about equity within ldc's but apparently less concerned about equity among national economies. Morse commented that the system had in fact been working diligently towards NIEO goals. He added a quotation from Ambassador Akhund of Pakistan that the basic needs strategy was "but a facet of the larger objective of increasing the productive capacity and earning power of the developing countries" and that there was no conflict between the basic needs approach and the concept of the NIEO "which expressly recognizes the need for social justice within as well as among nations".

However, Morse added that it had to be kept in mind that governments were fully sovereign in determining their own priorities for the system's cooperation; that many already possessed in good measure the technical resources required to meet the basic needs of their populations and wanted the U.N. system to provide "advanced skills"; that many would find it difficult even with external help to provide the resources required to meet basic needs of their poorest [there seems to be a contradiction between this comment and the preceding one]; and that countries individually perceive their own best paths to economic and social advancement and might therefore lack either the economic incentive or the political will to emphasize an anti-poverty strategy. However, Morse concluded, the U.N. system has a duty to try to improve the quality of assistance it can provide to the developing world in this field.

2. Najman of UNESCO repeated essentially what he had said to you in your meeting the day before. He said that UNESCO did not know what were the basic needs in the education field. It is dangerous, he said, when slogans such as "basic education" are thrown out and it is then left for agencies and governments to deal with the content of the slogan. A number of governments have tried to solve the problem of basic needs and have failed. Some developing countries are asking why developed countries are ready to deal with the basic needs problem in developing countries when they have not solved the problem of poverty at home. The question

for the system was how the basic needs concept can be translated into operational terms. It might be possible to find an answer if the agencies studied and consulted together; they might then be able to conclude what cannot be done, what can be done and how. But the subject should be studied before the agencies embark on programs.

3. Khane of UNIDO took issue with Najman. He said that time was passing and it was not feasible to postpone action until all the concepts had become completely clear. It was necessary to proceed in spite of uncertainty on the conceptual plane.

4. Blanchard of ILO likewise disputed Najman's point of view, saying that basic needs was much more than a slogan. In particular, he said, it would be a mistake for the system to give the impression that there were divergencies of view concerning the necessity of action to combat poverty. It was likewise a mistake to have it appear that growth and a basic needs strategy were in opposition. There was no conflict between the two. Basic needs could not be satisfied except in a context of development and growth.

5. Finally, Saouma of FAO likewise disagreed with Najman. For FAO, he said, basic needs was not a slogan but a priority. It was important to recognize the sovereignty of governments but likewise it must be recognized that basic needs exist. He referred specifically to the fact that the World Bank President had for several years been stressing the need to help rural areas where the majority of the absolute poor could be found.

SEBoskey/rob

cc: Mr. Aklilu  
Mr. Haq  
Mr. Grenfell

<b>ROUTING SLIP</b>	DATE: <b>October 28, 1977</b>
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NAME	ROOM NO.
<b>Mr. McNamara</b>	

<input type="checkbox"/> APPROPRIATE DISPOSITION	<input type="checkbox"/> NOTE AND RETURN
<input type="checkbox"/> APPROVAL	<input type="checkbox"/> NOTE AND SEND ON
<input type="checkbox"/> CLEARANCE	<input type="checkbox"/> PER OUR CONVERSATION
<input type="checkbox"/> COMMENT	<input type="checkbox"/> PER YOUR REQUEST
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<input type="checkbox"/> INFORMATION	<input type="checkbox"/> RECOMMENDATION
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<input type="checkbox"/> NOTE AND FILE	<input type="checkbox"/> URGENT

REMARKS:

Attached is an interim report on the DAC High-Level meeting, which had basic needs on its agenda.

FROM: <b>Shirley Boskey</b>	ROOM NO.: <b>E-823</b>	EXTENSION: <b>2173</b>
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Haq/Steelman/Scob

1. THE DAC HIGH LEVEL MEETING, WEDNESDAY AND THURSDAY, TURNED OUT TO BE LIVELIER THAN RECENT YEARS' DULL EVENTS. DISCUSSION WAS GENERAL WITH BHN IN FOCUS. THIS STRATEGY RECEIVED UNANIMOUS APPROVAL ALTHOUGH WITH VARYING DEGREE OF ENTHUSIASM. THE AUSTRALIANS TOOK THE COOLEST ATTITUDE MAKING A RATHER DESPERATE DEFENSE OF THE TRICKLE DOWN THEORY. UNANIMITY WAS PROBABLY FACILITATED BY THE LACK OF CLEAR CONTENT OF THE BHN CONCEPT.

2. THE OUTCOME OF CIEC, OR LACK OF SUCH, WAS GIVEN WIDELY DIFFERENT INTERPRETATIONS BY DELEGATES, BUT ALL AGREED THAT DONOR COUNTRIES' CREDIBILITY HAD SUFFERED. THEY RECOGNIZED THAT ANY NEW INITIATIVES ON THEIR PART WOULD HAVE TO OVERCOME THIS ADDITIONAL HURDLE TO BE SUCCESSFUL. THE BHN WAS IN THIS RESPECT NOT WITHOUT FLAWS. MANY SPEAKERS POINTED TO LDC SUSPICION THAT BHN IS MERELY A GIMMICK BY WHICH DCS ATTEMPT TO ESCAPE, OR CIRCUMVENT, LDCS DEMAND FOR A NIEO. TWO REMEDIES WERE RECOMMENDED TO GAIN LDC CONFIDENCE:

(1) BHN MUST BE ADDITIONAL TO EXISTING FORMS OF AID, AND  
(2) THE DIALOGUE WITH LDCS HAS TO BE A GENUINE DIALOGUE BETWEEN EQUAL PARTNERS ON THE BASIS OF LDC GOVERNMENTS' OWN PROPOSALS AND POLICIES.

3. WILLIAM CLARK'S INTERVENTION WAS RECEIVED WITH GREAT ATTENTION AND WARM APPRECIATION. IN HIS USUAL ELOQUENT MANNER, HE WARNED AGAINST TOO RAPID A MOVE IN IMPLEMENTING BHN DESPITE THE URGENT NEEDS OF THE POOR. HE SHOWED TO THE RESERVATIONS HARBOURED BY MANY LDC GOVERNMENTS, AND ALSO COSTS. THE BANK'S ESTIMATES FOR IMPLEMENTING BHN WERE CONSIDERABLY HIGHER THAN THOSE INDICATED BY THE DAC SECRETARIAT, HE SAID. TALKING FROM UL HAQ'S BRIEFING PAPER (HE TOLD ME AFTER THE MEETING), WILLIAM POINTED OUT THAT THE LDCS FIRST OF ALL WERE LOOKING FOR SOME POLITICAL POWER OVER THEIR OWN ECONOMIES, A GOAL WHICH THE BHN WOULD NOT HELP TO ACHIEVE. LDCS, HE SAID, WOULD HAVE TO BE CONVINCED NOT ONLY OF THE ADDITIONALITY OF THE BHN, BUT ALSO OF ITS DEPENDABILITY SO THAT THEY COULD LAUNCH THE LONG TERM PROGRAMS WHICH THE BHN NECESSARILY WOULD IMPLY WITHOUT RISK OF EXTERNAL FUNDING COMING TO AN END. WILLIAM ALSO TOOK UP THE AID FATIGUE PROBLEM WHICH IS APPARENT IN SEVERAL DONOR COUNTRIES. HE COMMENTED THAT RATHER THAN HIGH WORLD BANK SALARIES AND EXPENSIVE CONCORD FLIGHTS, ITS CAUSE IS TO BE FOUND IN LACK OF HARD EVIDENCE THAT AID WASTES. THE FRENCH, GERMAN AND SWISS DELEGATES EXPLICITLY EXPRESSED THEIR APPRECIATION FOR WILLIAM'S INTERVENTION, AND THE US DELEGATE DID SO IN A PRIVATE NOTE. IN ANOTHER CONTEXT, CHAIRMAN WILLIAMS VOICED SATISFACTION WITH THE GOOD COOPERATION WITH THE BANK IN RESPECT OF SPECIAL STUDIES AS WELL AS EXCHANGE OF INFORMATION

4. DURING THE MEETING SEVERAL COUNTRIES ANNOUNCED NEW AID MEASURES UNDER CONTEMPLATION BY THEIR RESPECTIVE GOVERNMENTS. THESE INCLUDED DEBT WRITE-OFFS BY USA, FRANCE AND SWITZERLAND, AND INCREASED AID APPROPRIATIONS BY FINLAND, GERMANY, JAPAN AND UK.

5. A FULLER REPORT WILL BE PREPARED LATER. REGARDS

## OFFICE MEMORANDUM

TO: Mr. William Clark, Vice President, External Relations DATE: October 21, 1977

FROM: Mahbub ul Haq, Director, PPR *Sp-4*

SUBJECT: Briefing on DAC Paper

Attached you will find a note prepared by Paul Streeten on the DAC paper. I think that it covers the main points raised in the paper. In the light of this analysis, my own suggestion would be that we take a position in the DAC High Level meeting somewhat along the following lines:

- we should greatly welcome the efforts of the DAC to follow up so quickly on the initiatives regarding basic human needs which constituted a major theme of Mr. McNamara's Annual Speech;
- we should indicate that the Bank has drawn up a detailed work program on basic needs with the object of providing an operational framework for planning and implementing basic needs programs: since most of our analysis will be undertaken in specific country context, we expect that it would yield important insights into the institutional, economic, social and political aspects of delivering basic goods and services to the target groups;
- we should, accordingly, caution that this is a new frontier of knowledge where operational plans should result from careful analysis and where half-baked ideas and hasty solutions could well prove counter-productive;
- we should endorse the main conclusion of the report that "whatever the shortcomings of the existing assessments, they clearly demonstrate the need for substantially increased aid levels if developing countries are to have any real hope of achieving reasonable basic human needs objectives within an acceptable time span," but we should caution against accepting prematurely any specific aid targets (e.g., \$6-7 billion additional assistance advocated in para. 22) for international action: as Paul points out in para. 6 of his note, our present estimates are about twice as high, even without recurrent expenditure, and we hope to firm them up in the process of formulating the international action program in the next few weeks;
- we should point out that the operational guidelines for international action are understandably weak in this document - e.g., in regard to criteria for allocation of assistance to countries undertaking basic needs programs; how the recurrent costs are to be financed, etc.,: we are doing further thinking on these issues

in the Bank and may wish to invite the DAC Secretariat to collaborate with us in this effort.

These are, of course, only a few ideas for your consideration. The main thrust of our strategy, I feel, should be to be supportive of DAC efforts on basic human needs while preventing them from adopting concrete targets for additional assistance or any operational guidelines without much more thorough work and without closer consultation with the Bank. However, you can best decide what our line should be in consultation with Hollis and Mr. McNamara.

Attachment

cc: Messrs. Chenery  
Koch-Weser

MHaq:sh

Brief on DAC Paper on Programmes and Policies for Meeting Basic Human Needs  
(prepared by Paul Streeten)

1. In general, we have no quarrel with the document. It is largely in line with on-going staff work (and draws on our papers) and with Mr. McNamara's speech at the Annual Meetings.
2. It is important to underline that BN does not mean sacrificing growth, though it does mean growth differently composed and distributed (and possibly differently measured). This implies no letting off on making the work of the poor more remunerative.
3. While BN can be summarized briefly as (1) higher real incomes for the poor plus (2) redesigned and improved public services plus (3) "participation," the paper neglects the issues of linkages between the three components: thus, in order to guarantee access to many public services, higher private incomes are often a prerequisite (e.g., free school education presupposes ability to spare children from farm work and equip them with clothes, transport, rooms at home for work, etc.; the same goes for clinics). Similarly, between (3), (1) and (2).
4. The controversial nature of supply management can be exaggerated. BN requires management on many fronts: not only of demand (or income) and supply, but also of costs, foreign trade, technology, types of products, etc. The issue is how can one achieve the objective with a minimum call on scarce administrative resources. There is no need to fear that BN is the Trojan horse of state bureaucracy, although it is important to note that providing higher money incomes is often not enough.
5. There is a good deal of talk of "participation". This is not a very fortunate term. Apart from its elitist connotation (to which some may not object), it draws attention away from the important question as to which decisions are best taken at what levels: how much centralization and how much decentralization. It is the proper combination of the two, rather than a modish call for participation, that will give results.
6. Some delegations (though not the paper) might argue that BN draws largely on domestic resources and the international contribution therefore can be smaller. Our Global Estimates paper shows that this is not so. The answer to the question in para. 20 is therefore Yes. Our figure for the foreign contribution to capital expenditure alone is twice the DAC figure, viz. an extra \$12 billion p.a. If recurrent expenditure is added, the additional foreign contribution would rise to \$22-30 billion p.a. BN is not a cheap option! The "count, cost and carry" approach has severe limitations, spelt out in the Global Estimates Paper, but it is possible to indicate orders of magnitude.



7. The question in para. 21 formulates one aspect of the Global Compact (McNamara's Manila speech).

8. We are doubtful whether the DAC secretariat is the best place to do work on social indicators. It is a highly technical and complex subject. (Para. 23) But there is no harm in their "keeping them under review."

9. The question raised in para. 24 of the compatibility of the NIEO and BN is a difficult one. The NIEO is about relations between sovereign governments, BN is about individual human beings; the NIEO aims at concealed transfers, no questions asked, no strings attached, BN is a highly targeted approach; the NIEO is about equality of opportunity between nations, BN is about decent minima for households. However, the two can be made consistent by an appropriate system of institutions and processes, on which considerably more work remains to be done.

10. Para. 27 is entirely acceptable. But it is important to remember that employment and productivity are not enough. These must be manifested in higher real incomes and higher purchasing power, plus better access to social services. Large employment and high productivity are entirely consistent with abysmally low real purchasing power.

11. On para. 32: while changes are required to remove constraints on the side of the developing countries, there are also numerous constraints on the side of the developed donor countries: too small volume, inadequate forward planning, excessive centralization, inflexibility, false criteria, hard terms, misleading project appraisal and the mythology of local and recurrent costs.

12. The suggestions in paras. 100-104, mentioned in para. 43 are (intentionally) very vague but point in the right direction. What appears to be needed is not so much a super-national as an extra-national procedure by institutions and processes trusted by both sides. As para. 44 notes, the World Bank is eminently suited to this role.

13. Subjects suited for the discussions referred to in para. 47 would be, first, the apprehensions, fears and objections, on both sides, to BN, and possible ways of overcoming them; and, secondly, concrete ways of implementing what is agreed by all to be a top priority objective.

14. If there were to be a discussion of foreign financing of recurrent costs, the argument is that there are better ways of ensuring local commitment and preventing being landed with millstones than to confine aid to capital costs. One simple solution is to finance recurrent costs on a phasing-out basis, raising gradually, on an agreed basis, local contributions.

15. The document is, understandably, thin on political constraints. Governments are often the problem, not the solution, to meeting BN.

16. The document does not say anything about the implications for the geographical distribution of aid: to the poorest, or those who can make best use, or those where aid makes the greatest difference in meeting basic needs?

## OFFICE MEMORANDUM

TO: Mr. William Clark, Vice President, External Relations DATE: October 19, 1977  
FROM: Paul P. Streeten, Special Adviser, PFR *pps*  
SUBJECT: DAC Expert Meeting on Human Basic Needs, October 4-6,  
DAC Regular Meeting, October 7, 1977.

1. Much concern was shown by some "experts" with the possible trade-off between Basic Needs and growth.
2. In one of my interventions I therefore attempted to point to some of the objections developing countries may raise against BN, and how to meet them, e.g., (1) that BN gives excessive emphasis to welfare, at the expense of production, productivity and growth; (2) that BN sacrifices modernization, science, technology and industrialization; (3) that BN means diverting funds from middle income countries, especially Latin America; (4) that BN may give rise to performance criteria which conflict with national sovereignty and which may introduce political leverage irrelevant to BN.
3. I then focused on the BN versus GNP growth issue, saying that BN must have two dimensions: distribution between income groups at any given time, and distribution over time. A properly designed strategy for inter-temporal distribution is bound to imply growth. In particular, growth is necessary (1) in order to make BN sustainable, (2) because BN are not static but grow, and (3) because there are other objectives besides basic needs. But, like GNP, growth is an abstraction. We should specify how to meet BN over time, with a growing population. Growth will then turn out to be the result, not the aim, of a rational economic policy.
4. I also said that BN was thrice blessed: it is an end in itself; it is productive because it improves human capital; and it tends to reduce fertility and population growth.
5. In reporting on the Bank's work, I said that the Bank had put the poor in the centre of its concern at least since Nairobi in 1973; that BN had not yet been discussed by the Board and that therefore no agreed strategy can be said to have been formulated; that the objective was non-controversial but that implementation needed to be worked out in considerable detail. I outlined the main features of our work program and the current work on poverty and redistribution, referring to the World Bank Research Program. I described the country studies as policy-oriented, forward-looking, action programmes. I said a few words about the relation between technological options (e.g., in public services), administrative and organizational implications, linkages across sectors, trade-offs between different basic needs and trade-offs between BN and other objectives. I talked briefly about the World Development Report and how BN fitted into it and about the need to appraise the impact of all international policies on BN. I ended by stressing the evolution of thought that had led to BN, the agreement on the objective and the need to clarify implementation.

6. At the regular DAC meeting on Friday, I tried to suggest a few features which would mark a distinctive BN approach. I distinguished between the project, country and global level. At the project level I emphasized the need to identify the deprived and to show ways in which their deprivation can be removed or alleviated, judged by acceptable and feasible standards.

7. At the country level, I said that in the dialogue at consortia, consultative groups and in bilateral negotiations country programmes should give greater emphasis to speedy poverty eradication. I raised the question of the implications of BN for the geographical distribution of aid, and whether to aid the needy or the speedy ("the needy cannot make good use of our aid, the speedy don't need it") and suggested that the proper criterion is to maximize the impact on poverty eradication, i.e., the difference made by our contribution, properly discounted over time and weighted for degrees of poverty.

8. At the global level, I raised some of the issues of reconciling the NIEO with BN and the need to exercise our institutional imagination in evolving buffer processes, if not buffer institutions, acceptable to developing and developed countries, combining a targeted approach with respect for national sovereignty.

9. Finally, I mentioned the implications for volume, terms and conditions of aid, and the need for local and recurrent costs.

Attachment

cc: Mr. Chenery  
Mrs. Boskey ✓  
Mr. Haq  
Mr. Jacob

PPS/acg

Some highlights of comments:

Maurice Williams said a substantial increase in aid is needed and a concentration on areas of previous neglect, especially food.

Rougé from France stressed the political aspects of BN; growth should be aimed at needs. BN should be central concern of development. Refrain from narrow sectoral strategy. FAO has an important role in encouraging food production.

Tuncer from Turkey said a BN strategy competes for scarce resources, especially skills and administrative talent; that raising the productivity of poor farmers leaves out the landless labourers and only meets the needs of those already better off; and that gainful employment must be the main thrust.

Mourik from the Netherlands said BN not a substitute for structural reform of development cooperation; that it is additional, not a replacement for macro-economic growth, that it must not be charity but spring from a sense of fairness, and that it must not encroach on sovereignty and self-reliance.

Michaelopoulos from USA stressed the need for complementarity between income and production. Either by itself is not enough.

Donida from Canada said it is often difficult to know who benefits from aid, from a policy or from a project. Donors should not impose conditions.

Oteiza from Argentina and Sussex emphasized participation. Also need for better coordination between bilateral and multilateral policies.

Maurice Williams said that action can not wait for results of all studies.

Wieseback from Germany said BN strategy calls mainly on internal developing country government action. The only way aid can be given is in response to a clear demand by recipients for BN projects.

Biroli from EEC: Aid donor implications: larger amounts; increased softness; lower conventional benefit/cost ratio; more risks; need for changing budgetary procedures; recurrent expenditure.

Ericsson from USA: need for more flexible procedures; more sympathy for local and recurrent cost financing; decentralized development. US now gives more autonomy to field officers. Food aid must be given in form more consistent with local agricultural development. He stressed the role of women in development, in particular for technological choices. Women are over-employed: rearing and educating children, heavy farm work, and walking miles for water. Onerous aspects must be reduced. Access to water; non-agricultural employment, scope for supplementing income.

Also natural disaster and meeting BN. Disasters affect worst poorest people in poorest countries.

Sectors of assistance: "no sector should a priori be ruled out."  
Major emphasis on agricultural and rural development.

Korhonen from Finland: stresses NGOs should be strengthened. BN should not be sectoralized. Health, education may need more emphasis - non-profitable. Involve WHO, UNICEF. Link technology with BN. Also NIEO.

General lessons: constraints to BN lie on both donor and recipient sides. A BN strategy would make heavy demands on administrative resources, which are scarce. If donors mean business they should increase and redesign aid. More humility is needed. Importance of participation and autonomy. Benefits should be earned not bestowed.

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: October 7, 1977

FROM: For Hollis B. Chenery A.K.

SUBJECT: Basic Needs Work Schedule

1. In the President's Council's meeting on September 12, you requested that a detailed work program be prepared to explore the operational implications of the basic needs concept. The Policy Planning Division has defined a series of policy papers and studies with the specific object of testing hypotheses and identifying operational issues concerning basic needs at the country, sector and international policy levels. The proposed papers are listed in Annex I, with a summary description of the main purpose and scope of each given in Annex II. These proposals have been drawn up in consultation with the Regions and all the concerned departments of CPS and DPS. These studies are a sub-set of our overall work program on poverty-related issues and, in their orientation and timing, they should all feed into the World Development Reports for 1978 and 1979.

2. You will observe that the policy papers and studies listed in the annex are very ambitious in scope. If this work program is to be completed over the next 15 months, it must be given high priority by all the concerned departments of the Bank. On our part, besides the policy work proposed for the DPS, we also intend to be closely involved in all the sector studies to be undertaken by the CPS as well as restructure our mission support in such a way as to contribute to the designing and carrying out of country studies by the Regions.

3. The work program listed here, with other work related to WDR, constitutes the most significant portion of overall policy work till the end of calendar 1978. A few more policy papers may be added to the overall list, particularly in the trade and urban development area, depending on the progress of current research work in these fields. In addition, there will be the usual demands of the Board and senior management for specific policy papers which will need to be accommodated in the overall program.

4. Let me also add that a good deal of the present work contemplated on basic needs is of an exploratory nature which, I hope, will help distinguish concrete issues from mere slogans or elusive images. It is a new area where it would be rash to promise final results or pre-judge the outcome. I am afraid that our discussions with the Regions, CPS and other parts of the Bank have been quite rushed and inadequate

Mr. McNamara

- 2 -

Oct. 7, 1977

in the time period we have had to prepare this work program for submission to you. It would be necessary to continue this dialogue and consultations further in order to finalize and implement this work program.

Attachments

cc: The President's Council

MHaq:AKaraosmanoglu:di

		<u>Staff/Dept. Responsibility</u>	<u>Schedule (Submission to President)</u>
<b>I. <u>COUNTRY STUDIES</u></b>			
<i>6 country studies from June 78 to Dec '78</i>	1. Sri Lanka	South Asia	June 1978
	2. Brazil	LAC	August 1978
	3. Afghanistan	EMENA	August 1978
	4. Somalia	East Africa	August 1978
	5. Mali	West Africa	December 1978
	6. Indonesia	East Asia & Pacific	December 1978
	7. Country Studies		
	(i) Progress Report - I	DPS-PPR	February 1978
	(ii) Progress Report - II (Streeten/Chernick)		February 1979
<b>II. <u>SECTOR STUDIES</u></b>			
<i>6 Sector studies from Oct 78 to Dec 78</i>	8. Nutrition	CPS-AGP (Berg)	October 1978
	9. Education for Basic Needs	CPS-EDP (Aklilu)	October 1978
	10. Shelter	CPS-URB (Jaycox)	October 1978
	11. Health	CPS-PAS (Lee)	December 1978
	12. Water and Sanitation	CPS-EWT (Rovani)	December 1978
	13. Basic Needs Packages	DPS-PPR	
	(i) Progress Report	(Streeten/Burki)	February 1978
	(ii) Final Report		February 1979
<b>III. <u>OPERATIONAL POLICIES</u></b>			
14. International Implications for Foreign Assistance	DPS-PPR (Jacob)		March 1978
15. Implications for Bank Group Lending Policies and Country Allocations	DPS/CPS (Haq/van der Tak)		Feb. 1979
16. Implications for Bank's Country Economic, Sector and Research Work	DPS/CPS (Chernick/Ray/Pyatt)		Feb. 1979



Brief Descriptions of  
Country Studies and Policy Papers

I. Country Studies

The aim is to prepare a series of country case studies which are practical, policy-oriented and forward-looking. The emphasis will be on (a) assessing the performance of various countries in meeting basic needs, (b) identifying those changes in policies required to meet the basic needs of the bulk of the country's population more adequately and (c) indicating how these changes in policies could be accommodated in the countries' overall development strategies. They will draw on the on-going work of the functional studies so that the two sets of studies can benefit from each other as work progresses.

As a first round effort and on the advice of the various Regions, we have selected 6 sample countries for study. Given the time constraint, the selection was heavily influenced by existing mission plans and degree of advance mission preparation, as well as the appropriateness of the country for a basic needs study and the receptivity of the authorities. The six country cases provide a good comparative base for testing hypotheses and gaining insights into operational issues, because the sample embraces a wide spectrum of country situations. They range from those which, despite above-average rates of growth, have not been able to meet the basic needs of large segments of their population (e.g., Brazil), to those which followed a basic needs type of approach but have run into problems adversely affecting their future growth prospects (e.g., Sri Lanka). In between are country types exemplified by Indonesia, Afghanistan, Somalia and Mali. For each of these country studies, the issues pertaining to basic needs and the implications for the World Bank's assistance strategy vis-a-vis the country, will be presented in a separate concise memorandum. It is highly likely that these exploratory country studies will lead to follow-up work which may extend beyond the 17-month work programming horizon we have adopted. A brief description of the focus of each country study is presented below.

PC-00.25

Paper No. 1: Sri Lanka

Sri Lanka's development has been unbalanced; too little attention has been paid to the growth in jobs and revenues required to sustain the progress Sri Lanka has made in meeting basic needs. The Economic Mission will focus its work on the macro-economic and sectoral policies relevant to restoring this balance. At the same time, the Mission will review Sri Lanka's progress and problems in meeting basic needs and attempt to identify the linkages between meeting basic needs and the overall growth of the economy.

Skim ...  
is ...  
as to what  
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to ...

Paper No. 2: Brazil

A Human Resource Special Report (the mission has just gone into the field) will (a) evaluate how population and human resource factors relate to the development of Brazil over the next three decades; (b) ascertain specific national objectives in the areas of health, nutrition, education, housing, employment, earnings, income distribution, and population and examine the implications for achieving these objectives in the next three decades of (i) an extension of current trends, and (ii) a range of policy options which would seek to modify these trends; (c) study evolving government programs and policies related to human resource development; and (d) explore the role of the World Bank in the financing of these needs implied by projected scenarios of socio-economic development, and thus help orient the Bank's future lending program, particularly in the areas of health, nutrition and education.

Paper No. 3: Afghanistan

A draft Basic Economic Report on Afghanistan covers most of the information which is available on Basic Needs in that country. The next stage of work is to explore the area of delivery systems for basic needs goods and services. Feasible programs at the national, regional and sectoral level need to be evolved for covering the population over time, and administrative approaches need to be formulated to achieve this. Water supply and education are the sectors which will be emphasized.

Paper No. 4: Somalia

This study will evaluate the basic needs policies and programs already underway from the perspective of Somalia's own objectives and operating experience. It will investigate both the accomplishments and the difficulties (financial, technical and organizational) which have been encountered in the past and which would be likely to arise in future as the government extends these various efforts to reach the entire population. The study would then attempt to derive specific lessons from Somali experience in meeting basic needs. It should also assist the government in defining a strategy for full coverage of basic needs of the population over an agreed time horizon. Because of the serious deficiencies of aggregate data in Somalia, a basic needs study can not attempt, in the first instance, to quantify the basic needs gap nor to cost the full financial implications of meeting basic needs targets.

Paper No. 5: Mali

As a result of an intensive economic work program over the past two years, the condition of health and health services in the country has been identified as a major sectoral issue. It is proposed to focus this country study on health and its elements, and evaluate feasible delivery systems for raising health standards. The findings are likely to apply generally to the other countries in the Sahelian group.

*Paper draft  
have anyone  
who is  
specialist  
in delivery  
systems -  
Just raw  
data  
on how basic  
needs are  
being met.*

*OK*

Paper No. 6: Indonesia

As follow-up to the Foodgrain Policy Paper, the Indonesian food situation is already under study with a view to reducing significantly the shortfalls projected for 1985. The emphasis will be on increasing the output of the small paddy farmers. Another study, being carried out with the help of DPS, will focus on the formulation and analysis of demographic, employment and distributive issues as part of a more comprehensive evaluation of alternative development policies and prospects. In addition to this program, a special study, to be manned jointly by CPS/DPS will focus on delivering basic education, and health (including water and sanitation) services to the poor in both rural and urban areas.

Paper No. 7: Country Studies - Progress Reports

These reports will attempt to identify the areas of concentration for both domestic and donor policies. This will differ from one country type to another. In analysing the areas of concentration, the progress reports will focus especially on a) technical aspects, b) delivery systems, c) resource requirements and the means for meeting them and d) implications for long-term growth.

Although the major responsibility for these country studies will rest with the Regional Offices, the DPS (and possibly CPS) will assign high priority to supporting them.

## II. Sector Studies

Five studies are proposed; three to be ready by the fall of 1978 and two by December of that year. The major objective will be to explore in each sector (a) how services can be provided to the poor which are low-cost, broad-based and replicable; and (b) what has been the experience of the Bank so far and how it should evolve in the future. Although, emphases to be placed in these papers will differ, given the state of our knowledge and Bank's program priorities, the following issues are likely to be covered in all of them:

- definition of basic needs standards appropriate in different countries and regions;
- assessment of the present status by types of countries and globally;
- present country policies for meeting basic needs in that particular sector;
- technological options for better meeting basic needs;
- administrative and institutional implications and appropriate delivery systems;
- assessment of required resources for meeting appropriate basic standards;
- trade-offs among different needs and complementarities among them;
- implications for the Bank Group's lending policies; and
- further areas of research.

### Paper No. 8: Nutrition

The paper will (a) define the nutritional problem in terms of both absolute and relative needs, taking into account biological factors and local standards; (b) discuss the rationale for direct nutrition interventions to reinforce general economic measures to raise incomes; (c) provide reasons why the traditional interventions have been largely ineffective and/or have a long lead time and discuss alternative delivery mechanisms to improve the nutritional status of rural and urban target groups; (d) analyze the role of health interventions (e.g., primary health care, water supply, sanitation) to prevent nutrient wastage from infection; (e) discuss steps to increase local availability of nutritious foods through increased production and improved storage and marketing; and (f) in light of experience to date, outline an operational program for the Bank in the area of nutritional improvement.

Paper No. 9: Education for Basic Needs

The main objectives of the paper will be to (a) define basic needs in education and training for both urban and rural areas; (b) set out the dimensions of the problem by defining target groups in terms of age and sex and socio-economic characteristics; (c) define the content and methodology of basic needs in education including learning content; (d) specify the political, institutional, financial, and technological barriers and explore alternative approaches to meeting basic education requirements; (e) outline a strategy for countries or types of countries, emphasis being that these strategies should be replicable, cost-effective and produce results over a relatively short period of time; and (f) outline an operational program for the Bank. Particular attention will be paid to education for rural adults and to participation of the target group in the planning and management of basic education activities.

Paper No. 10: Shelter

The main objectives of the paper will be to (a) define basic needs in the shelter sector in both urban and rural areas; (b) set out the various dimensions of the problem; (c) specify the political, institutional, financial and technological barriers that stand in the way of meeting basic shelter requirements; and (d) lay out the World Bank's shelter program in the context of overall needs. Given the work that has been done already, this paper will involve little additional research, although greater emphasis will be placed on rural shelter than done in the previous papers. The paper will specifically emphasize the use of community and service organizations for making basic shelter available to the target population.

Paper No. 11: Health

The main purpose of the paper will be to (a) develop the concept of basic health appropriate at different levels of income and development; (b) define a standard of basic health care which would reflect considerations of both cost and effectiveness in various countries; (c) define the various technical and institutional options available; and (d) define a role for the Bank in the area of basic health. The paper will argue that there is a hierarchy of health priorities which can be established and adopted in a health program depending upon the circumstances of a particular country. These include, in a possible ascending order, the following:

- a simple program of maternal and child care including management of pregnancies, antiseptic delivery, immunization against childhood diseases and developmental evaluation of children;

- immunization, chemo-suppression and/or periodic therapy for endemic, debilitating diseases for the most vulnerable groups;
- treatment of traumatic injury and bacterial infections; and
- rudimentary rehabilitative medicine including necessary orthopedic appliances and therapy.

Paper No. 12: Water and Sanitation

The main purpose of this paper will be to develop (a) a feasible program for meeting the basic needs in this sector as illustrated by the HABITAT targets for providing adequate quantities of safe and convenient water for the presently deprived populations; and (b) determine the role the Bank can play in such a program. The paper will provide estimates for short-falls by countries - these will be based on the WHO/IBRD work underway under the Cooperative Program of "rapid country assessment." The paper will also draw upon the Bank's research program that is oriented towards finding and testing appropriate technology for providing low-cost, broad-based public services in countries with different characteristics. Finally, the paper will examine a greater use of sector lending approach as against increasing the size and/or number of water supply and sewerage projects in the Bank's program in this area.

Paper No. 13: Basic Needs Packages

Two overview papers will pull together the analysis and policy conclusions of the sector studies listed above. These papers will focus, in particular, on linkages and complementarities among various basic needs and the implication of these for domestic and international policy action. These papers will make input into the World Development Reports, 1978 and 1979.

III. International Implications and World Bank Activities

Paper No. 14: International Implications for Foreign Assistance

The purpose of this paper is to provide an assessment of policy implications of a basic needs oriented strategy for donor countries and international institutions. It will take into account both the policy formulation processes in major donor countries and organizations as well as the current thinking on a basic needs approach at the policy-making levels.

Paper No. 15: Implication for Bank Group's Lending Policies and Country Allocation

This paper will show policy conclusions from the work outlined above for the Bank Group's lending policies. The issues to be examined will become clear as the basic needs work progresses. These may include, inter alia, the following:

- local cost financing;
- financing of recurrent costs;
- project appraisal procedures;
- criteria for country creditworthiness; and
- sector and country emphasis in Bank Group allocations.

Paper No. 16: Implication for Bank's Country Economic, Sector and Research Work

The main purpose of this paper will be to outline the methodologies, analytical approaches and organizational procedures that need to be introduced into the Bank's country, sector and research work if the fulfillment of basic needs is to be adopted as an important objective of our lending.

SJBurki/SChernick:fvf  
October 7, 1977

## OFFICE MEMORANDUM

*re: [unclear]*  
*PPA [unclear]*  
*[unclear]*  
 V  
 IN

TO: Department Directors and Projects Advisory Staff in Central Projects Staff *Sushil K. Bhatnagar* DATE September 14, 1977  
 FROM: Sushil K. Bhatnagar, Office of the V.P., Projects Staff  
 SUBJECT: Items of Interest at September 7 Meeting of Directors and Advisers

PRESENT: Messrs. Baum, van der Tak, King, Aklilu, Baldwin, Darnell, Fuchs, Gordon, Jaycox, Rovani, Tolbert, Willoughby, Finne, Israel, Lee, Lethem, Morse, Raizen, Ray, Turnham, Bhatnagar and Mrs. Scott.

Basic Needs

Mr. Baum invited discussion of the group of papers on basic needs recently circulated by the Policy Planning and Program Review Department, DPS. Mr. van der Tak drew attention to several questions: are these basic needs a minimum universally applicable or are they relative to a specific country situation; related to this, how are the trade-offs determined between basic needs and other needs, including future growth; to what extent is the approach a new one since several areas of Bank lending, in particular sites and services, are already following these lines? The basic needs proponents stress, in varying degree, that market mechanisms do not work effectively to meet the needs of the poor even when they receive more money as a result of increased productivity or welfare payments, and, therefore, they advocate greater reliance on supply management and direct intervention in the distribution system to meet consumption needs of the poor. This is a matter of degree: supply management is common in many countries and sectors, but the basic needs approach would go further and extend it, for example, to food supplies. He saw, as a major advantage of the basic needs approach, that it made higher consumption and living conditions for the poor respectable per se, without having to justify them in terms of more indirect and long-delayed impacts on productivity. Better health or shelter for the poor were seen as being good things in themselves, quite apart from any effects on productivity which they may have. This basic needs theme might also be effective in efforts to mobilize more foreign aid. He noted that the Bank's approach to rural development had been productivity oriented, while that to urban development had initially been oriented toward providing basic needs in housing, water, etc. Today, however, the approaches were moving closer together with a greater emphasis in rural development on meeting needs not directly related to productivity, such as water, health, and education, while in urban development there was a strong push toward employment and productivity through small-scale enterprises.

In the discussion which followed, there was great interest in the question of trade-offs mentioned above. There was a feeling that this was a key issue and that the Bank's traditional emphasis on



Department Directors and Projects Advisory  
Staff in Central Projects Staff

September 14, 1977

investment and productivity could not be completely abandoned in favor of this new approach. More work was required to develop criteria for determining to what extent identified basic needs should be met at the cost of long-term development. Putting the issue in stark terms, one speaker asked whether it was appropriate at all to lend for consumption. On the other hand, it was also suggested by some speakers that the dichotomy between investment and consumption had been overdrawn. It was also suggested that the Bank's greatest contribution in this field, and the rationale for its lending for basic needs, could be found in its applying its technical skills to projects for basic needs so that these needs would be met by technically sound projects with the lowest possible cost.

Though the need for more study and closer consideration of the operational realities involved in lending for basic needs (including appraisal techniques, methods of implementation and the like) was recognized, concern was also expressed that unless policy and program objectives were clearly defined soon, there was a danger that staff efforts in some cases would be misdirected.

Mr. Baum said that since the subject of basic needs was achieving widespread interest and beginning to have important implications for both national and international development efforts, the Bank was giving it considerable attention. The abovementioned DPS papers were scheduled for discussion at the President's Council Meeting on September 12, 1977.

EDI Program, 1979-83

A recently distributed five-year program for EDI would be discussed at the September 21, 1977, meeting of the CPS Directors and Advisers. Mr. Baum asked the CPS Directors to send directly to Mr. Raymond Frost, by September 20, their comments on the EDI program, with copy to him.

DISTRIBUTION: Messrs. Aklilu, Fuchs, Gordon, Jaycox, Kanagaratnam, Lejeune, Rovani, Sadove, Tolbert, van der Tak, Willoughby, Yudelman, Finne, Israel, King, Lee, Lethem, Morse, Raizen, Ray, Weiss and Mrs. Scott.

cc: Messrs. Knapp, Baum, Benjenk, Chadenet, Chaufournier, W. Clark, Husain, Krieger, Stern, Wapenhans, Alter, Weiner, Gabriel, Hattori, Burmester.

cc: Messrs. Haq and Frost

HGvanderTak/JAKing/SKBhatnagar:lic

File

FORM NO. 75  
(3-76)

THE WORLD BANK

ROUTING SLIP		DATE	Sept. 13, 1977
NAME		ROOM NO.	
Mr. McNamara			
APPROPRIATE DISPOSITION		NOTE AND RETURN	
APPROVAL		NOTE AND SEND ON	
COMMENT		PER OUR CONVERSATION	
FOR ACTION		PER YOUR REQUEST	
INFORMATION		PREPARE REPLY	
INITIAL		RECOMMENDATION	
NOTE AND FILE		SIGNATURE	
REMARKS			
<p>Attached are two memos from Mr. Burney, concerned with his recent trip to Geneva. (A report on the meeting he attended will follow.) They are addressed to William, but I thought you might like to see them without waiting for William's return.</p> <p>A separate briefing for your meeting with Korea will come to you today.</p>			
FROM	Shirley Boskey <i>SB</i>	ROOM NO.	EXTENSION

## OFFICE MEMORANDUM

TO: Mr. William Clark (through Mrs. Boskey)<sup>RB</sup>  
 FROM: Mahmud Burney *heB*  
 SUBJECT: Possible Reaction to Mr. McNamara's Speech

DATE: September 12, 1977

You asked that while in Geneva I should try to gather possible reactions to that part of Mr. McNamara's speech which would deal with trade. If I recall the main points in the speech regarding trade expansion were, that:

- the developing countries, within existing policy framework, could increase the volume of primary commodity exports by about 50% and nearly triple manufactured exports. This would require a major effort on the part of the developing countries and continued tolerance on the part of the developed countries.
- the developing countries' exports could substantially increase further if OECD countries were to gradually dismantle their trade barriers against manufactured goods of the developing countries and if the developing countries themselves were to remove their own supply constraints on exportable manufactures.
- those policy actions to expand exports from the developing countries are in the large interest of both the developed and developing nations, and would call for enlightened attitudes and political courage on both sides.

From my conversations with staff from GATT, UNCTAD, IMF (Geneva office) and a few delegations, I believe that on the whole the speech should be positively received. At this stage, it may be useful to say a few words about the state of multilateral trade negotiations (MTN) at GATT, in Geneva.

Until mid-1977 the MTNs made little progress mainly due to the dispute between the U.S. and the EC whether negotiations on tariff reductions and on other barriers to trade apply to agricultural and industrial products equally. To safe guard its agriculture, the EC had been insisting that negotiations on agricultural products be conducted separately from those on industrial products. A compromise on this important procedural matter was reached in July 1977, which should pave the way for more meaningful negotiations. Progress has also been made in other procedural and technical matters, such as tariff reduction formulas, quantitative restrictions, import licensing procedures, subsidies and countervailing duties.

So far, however, actual achievements have been limited. Only a few developed countries have, unilaterally, granted some concessions on tropical products as part of the Tokyo Round. The U.S. has not granted concessions because it has not been able to obtain reciprocity from the developing countries, who argue that any concessions on their part should be granted at the conclusion of the MTNs.

Major trading countries, threatened by rising protectionism and its consequences to world trade, are trying to expedite the pace of negotiations. The work of the various groups at GATT is likely to become intense in October -- after the European summer vacation. Based on submission of requests for concessions by November 1, the hard bargaining stage should begin by January 1978. The MTNs are scheduled to be completed by April 1978, but a more realistic timetable would be mid-1979. The general conclusion at GATT is that reactivation and substantive progress under the MTN would offer the only hope against protectionism.

In this atmosphere Mr. McNamara's speech should be positively received. There may, however, be some concern on the part of some industrialized countries that it is harsh on protectionism, and on the part of many developing countries that although it supports expansion of supply of primary commodities in the developing countries, it does not say anything about the terms of trade for these commodities. Some asked about the Bank's attitude regarding individual commodity negotiations as well as about the common fund. I had to fudge--on the lines of my statement at the UNCTAD meeting in Geneva in March 1977. Mr. Corea also raised the question of commodity pricing as well as the Bank's attitude towards the forthcoming negotiations on the common fund -- November, 1977.

I did not detect any institutional concern on the part of GATT or UNCTAD that the Bank was entering their areas of competence -- trade. The question of what additional initiatives the Bank might take in the trade area was not raised.

cc: Mrs. Boskey  
Mr. Grenfell

# OFFICE MEMORANDUM

TO: The President's Council

DATE: September 12, 1977

FROM: Hollis B. Chenery *HBC*

*File*

SUBJECT: Basic Needs Work Program

As requested by Mr. McNamara this morning, I am circulating the attached draft of the basic needs work program. This is a very preliminary draft, drawn up by the Policy Planning Division on the basis of some hurried consultations with the concerned departments. It is still incomplete, particularly in regard to the research being carried out by the DRC. After further consultations with the CPS and the regions, we plan to submit a consolidated work program to the President by the end of this month.

Attachment

MHaq:nf

cc: Mr. van der Tak  
DPS and CPS Directors  
Regional Chief Economists  
Mr. Burmester

	<u>Staff/dept. Responsibility</u>	<u>Schedule (Submission to President)</u>	<u>Comments</u>
<b>I. FUNCTIONAL PAPERS</b>			
1. Nutrition	CPS-AGP (Berg)	June 1978	The paper will investigate both short and long term needs: the short term needs are for identification of the extent, character and causes of existing malnutrition to guide programs; the long term needs are for research which will determine cost-effective nutritional indicators and the consequences of shortfalls from prescribed levels.
2. Education for Basic Needs	CPS-EDP (Akiliu)	June 1978	The paper will examine the crucial deficiencies in existing systems, suggest target populations that need special attention and recommend measures for promoting the desired education.
3. Health	CPS-PAS (Lee)	December 1978	The paper, using a broader definition of basic health, will discuss the strategies and resources required to meet it. The paper will provide an assessment of the target population (who and where), their health problems i.e., their basic health needs and the objectives of a health strategy to achieve those needs.
4. Shelter	CPS-URB (Jaycox)	December 1978	The paper will extend the already considerable Bank work on housing and urban poverty, on the argument that shelter as a basic need demands a qualitative change in perception of the problem and of available policy options. The paper will specially emphasize the use of community and service organization for making basic shelter available to the target population.
5. Basic Needs Packages	DPS (Burki)	July 1978 January 1979	The two papers will investigate the linkages and complementarities between the basic needs that are the subjects of papers Nos. 1-4. These interconnections need to be approached at a number of different levels in order to assess the costs and benefits of policies which rest on the identification of linkages or points of sensitivity for policy intervention.
(i) Progress Report (ii) Final Report			
<b>II. COUNTRY STUDIES</b>			
6. Middle Income Countries	DPS-PPR/Regions (Chernick-Burki/ Chief Economists)	Two case studies by June 1978 and four by December 1978.	Possible candidates are being discussed with the Regions on basis of relevance and operational feasibility; tentative possibilities where missions are already planned or can soon be mounted are Guyana, Jamaica, Uruguay and Thailand.
7. Poorest Countries	DPS-PPR/Regions (Chernick-Burki/ Chief Economists)		Possible candidates in this category are Bolivia, Sri Lanka, Burma, Indonesia, The Sahel and Somalia.

III. OPERATIONAL RESEARCH	<u>Staff/Dept. Responsibility</u>	<u>Schedule (Submission to President)</u>	<u>Comments</u>
8. Politics, Delivery Systems and Popular Participation	DPS-PPR (Streeten/Simmons)	December 1978 with interim report in June 1978	This will be a research program for which an RPO will be submitted to the Research Committee. To be carried out by IDS, Sussex, the program will analyze development processes and policy alternatives so as to clarify the productive and institutional conditions within which different basic needs strategies would be feasible, and to derive operational conclusions for the Bank.
9. International Implications	DPS-PPR (Jacob)	March 1978	Assessment of policy implications and issues of basic needs oriented strategy for donor countries and international institutions; based on analysis of policy formulation process in major countries and organizations. Follow-up paper will possibly integrate with LDC perspectives after functional and country studies are available.
10. Quality of Life Indices	DPS-PPR (Streeten)	June 1978	Statistics are needed in order to monitor basic needs performance, human and social indicators, and methods of integrating them into composite indicators, where appropriate, will be designed for this purpose, and their relation to economic indicators will be explored.
IV. WORLD BANK ACTIVITIES			
11. Implications for Lending Policies and Country Allocations	DPS/CPS (Haq/van der Tak)	June 1978	The paper will analyze the implications for lending policies including those for (a) local cost financing, (b) financing of recurrent costs, (c) country creditworthiness and (d) country allocations.
12. Implications for Country Economic, Sector and Research Work	DPS/CPS (Chernick/Ray/Fyatt)	December 1978	The paper will analyze the implications of adopting basic needs as an important objective of Bank's lending for (a) country economic work, (b) sector work and (c) research.

Policy Planning and Program Review Department  
Policy Planning Division  
September 9, 1977

# OFFICE MEMORANDUM

TO: The President's Council  
FROM: Hollis B. Chenery *HBC*  
SUBJECT: Mr. Cassen's Note on Basic Needs

DATE: September 12, 1977

I attach herewith a brief note prepared by Mr. Robert Cassen on basic needs. Many of you expressed an interest in seeing it during the course of the President's Council meeting this morning.

Attachment

MHaq:nf

cc: Mr. Burmester



Sept. 2, 1977

What's Wrong with Basic Needs?

A Personal View

- (1) Employment -- RWG -- BN: Is BN just the latest fashion of the "International Development Conference Community"?
- (2) Does BN imply just more purchasing power (the market) plus public goods?
- (3) Count cost and deliver?

Answer to all 3 questions - No; though (2) is not far off the mark.

Basic Needs In Their Place

The items that come under BN are important features of welfare, which benefit from being treated together and have several significant similarities. There is no strong case for considering BN as the central organizing concept of development strategy or development assistance, as an alternative objective of development opposed to economic growth and other desirable ends. Satisfying BN should be one objective among others, subject to resource constraints in competition with those others. How to assess the priority which might attach to BN will be referred to below.

The List

For reasons which will become clear, the main BN areas are nutrition, health, education and shelter. Employment and incomes are conditions for enjoying BN, and it might be considered that employment has a psychic value as well as being a source of income. But there seems to be agreement to regard employment as a means to BN, not a "need" in the same sense in itself.

BN and Income

What is the relation between income and enjoyment of BN? Obviously likely to be positively correlated; but relation is two-way. The more pertinent question is: to what extent will the BN of deprived groups be satisfied by rising incomes? Clearly income is a key enabling factor. Very poor people may not be able to afford to purchase food, take time off or travel to health centres (even "free" ones), release their children from domestic-economy tasks to go to school ("free" education), or pay for accommodation. But income increases - at least over expected ranges in the short term - may not solve the problem within an acceptable time. Nutrition is the clearest case. Reutlinger and Selowsky (occasional paper No. 23) suggest calorie-income elasticities may be quite low, and gains in income needed for caloric adequacy quite large. There is a further problem: the means of generating additional income may affect nutrition adversely - only partly a distributional effect of income-generation. (Female employment, especially in modern sector jobs, may curtail breast-feeding and reduce infant nutrition by more than mother's additional income compensates for; cash-crops may make important foodstuffs unavailable locally, or raise their price; profitability of new grain varieties may drive out "inferior" (nutritionally superior) crops such as millets, eaten by poor; etc.)

Health and education obviously partake in various ways of the nature of public goods; but even where free public services are provided (see below), little is known about the income levels required for people to be able to enjoy them. How much do you have to raise poor parents' incomes to remove the inhibitions which keep children out of school, or which make for their poor performance in school even if they enrol? When it comes to urban housing, no one has yet been able to design a form of low cost housing cheap enough to provide

shelter for the poor under any public construction program; the incomes needed for anything traditionally known as "housing" are probably beyond the reach of the poor for decades to come.\*

#### BN and Government Intervention

What government must do to assist the satisfaction of BN varies considerably, mainly in connection with levels of per capita income. In rich countries, most important goods or services which the market cannot be relied on to make available efficiently are supplied directly by governments. In very poor countries this may not be feasible. Important lessons have been learned in fields of health services (and hygiene, sanitation, water supply), housing, education or nutrition programs about "how to do it". The lessons have a great deal in common, and need not be rehearsed here\*\* - the main common elements being the past adoption of inappropriate standards and technology. (E.g. Status of health services in many countries is still measured by doctor/ or hospital-bed/ population ratios, which in poor countries have next to nothing to do with health, and may indeed be indicators for the mis-allocation of health resources.)

Another important common element is the possible necessity for self-management, community participation, etc. The example with perhaps the longest history is the site- and-services approach to urban housing, but the health field is currently full of pilot projects for local communities to work for their own health-improvement, with appropriate government assistance. Educational examples also exist. Government's ability to promote self-help schemes with necessary personnel and institutional arrangements may be an important part of BN - the poorer the country, the more important it may be. (Lessons of 1950's Community Development probably quite misleading for current situation.)

\* It is precisely because (a) the income requirements are fairly modest and (b) there is no likelihood of market failure, that there is little point in discussing "clothing" in the BN context, as some have proposed.

\*\* See Bank Sector papers and much else.

deficient items to the population in need. If the above account of BN is correct, such an approach (which we have termed "count, cost and deliver") is totally misguided, and the phrase "delivery system" which has been used in this context is equally unfortunate. There will be cost consequences of a BN strategy, but they will not be the costs of supplying missing calories, health clinics or school places considered independently.

#### Priority of BN: Welfare vs. Investment

How much should a country spend on BN? Where does it fit in the scheme of things? Clearly ldc governments will differ in their views, and the question can no more be answered in the abstract than it can for rich countries. (How much should the US spend on health?) Opportunities are limited by supply constraints in any case, and the pace of institutional change. One can only say that Basic Needs deserve particular attention because they are among the objectives of economic development, and will not be provided for by traditional growth - even employment- and/or redistribution-oriented growth. One thing which should not deter governments from taking an interest in BN is the suggestion that they are "welfare programs" which only rich countries can afford. To some extent of course they are. But (1) BN is partly about doing better with existing resources (replicable services for all, not high cost services for some); (2) BN programs have an "investment" characteristic - (a) they raise labour productivity, (b) many BN items are the "correlates of fertility decline", so some costs in terms of GNP growth may be compensated for by reduction in population growth. The net effect of a BN program on economic performance is bound to be

hard to assess: obviously the more resources are directed to unproductive members of society (the old, the disabled) the less there is any positive benefit in terms of economic growth. But many of the questions which arose earlier about the effect of income redistribution or of employment intensification on economic growth remained unanswered, and the same questions can be asked about BN. BN have received unfortunate attention from the International Development Community, who have seen them as a way of attracting aid etc. The Third World (e.g., at UNCTAD) has not surprisingly been suspicious. A moderate approach may make the whole topic more appealing to the latter and to sceptics among the former.

#### Summary

BN comprise a set of important factors in economic welfare. They are related (1) because their provision combines income generation and market responses, public services, and self-help schemes; (2) by complementarities in cost and effectiveness; (3) in their helpful influence on labor productivity and fertility decline as well as their welfare implications.

GLOBAL ESTIMATES FOR MEETING BASIC NEEDS: BACKGROUND PAPER

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## I. Some Global Estimates

1. Since the adoption of the "Basic Needs Strategy" by the World Employment Conference in 1976, several authors and institutions have raised the issue of the resources that are required to implement a basic needs policy.<sup>1/</sup> PPR has made a simplified attempt to determine the magnitude of the investment requirements and is currently also looking into the recurrent costs of basic needs programs.

2. Such investment and recurrent cost estimates can only be arrived at if a large number of assumptions are made on the number of people deprived of basic goods and services, the per capita costs of producing and delivering these to the poor, the economic policies followed by governments, the economic trends in developing countries in the future, etc. As it is unlikely that all such assumptions hold at the same time, the resulting estimates are somewhat arbitrary. Nevertheless, to give an indication of the resources that might be required, it is estimated that a basic needs program which would make available to the poor in developing countries minimum acceptable diets, drinking water, sewerage facilities, public health measures, and basic education, might require an annual additional investment of about \$19 billion a year over a 20-year period (1980-2000) in 1975 dollars and prices. If the basic needs programs were limited to the poorest countries, they might cost about one-third less (\$12 billion a year).

3. These figures relate only to the capital costs of basic needs projects. (see Table 1). As indicated above, it should be clearly understood that these estimates provide only orders of magnitude and are based on inadequate data and a host of both defensible and arbitrary assumptions.<sup>2/</sup>

4. Therefore, it should be noted that Table 1 and its capital cost estimates are very hypothetical. There is no single "price tag" which can be fixed on the basic needs approach. Providing for the financial cost of basic needs, though not a small matter, is probably relatively easy in comparison with the political, organizational, manpower and other problems which have to be solved.

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<sup>1/</sup> E.g.: James P. Grant, President, ODC, "A Fresh Approach to Meeting Basic Human Needs of the World's Poorest Billion: Implications of the Chinese and Other 'Success' Models," Paper delivered to the 1976 Annual Meeting of the American Political Science Association, September 2-5, 1976. This paper estimated the cost at \$10-12 billion annually. A preliminary World Bank staff estimate made in 1976 indicated a range of \$11 to \$13 billion per annum over a ten year period to alleviate the worst forms of poverty in low income LDCs. (See: "Capital Needs for Relief of Worst Poverty in Poorest Countries," PPR, August 6, 1976).

<sup>2/</sup> The assumptions are spelled out in a background paper on five basic goods and services.

5. The total investment requirement for the production of the five basic goods and services of Table 1, amounting to \$377-381 billion, may seem small if viewed in relation to world income (6% in 1975). The annual investment costs amount to only 0.3% of world income. For the world as a whole, or for the richer nations, it would not be an unmanageable burden to finance this. To use a loaded example, the estimated annual investment costs amount to only 5% of global defense spending (which reached about \$375 billion in 1975).

6. However, the figures of Table 1 should be seen in the light of the economic capacities of the low-income developing countries. Basic needs investments required for low-income countries, \$12 billion per annum according to Table 1, equal 55% of their gross domestic investment, or 52% of the government revenues of these countries.<sup>1/</sup> This shows that the low-income countries cannot be expected to finance such investments on their own given their current economic circumstances.

7. Furthermore, the recurrent expenditure on wages, supplies, repairs, and other non-investment costs have been estimated to be larger than the annual capital costs of some basic needs projects (see Table 2). Making provisions for such recurrent expenditures may also be more important for the success of basic needs program than making the initial capital outlay. For all developing countries, recurrent costs are estimated to be from \$28 to 40 billion.<sup>2/</sup> (This varies according to basic need: recurrent housing costs per annum are low in relation to total investment costs, but recurrent education and health costs per annum are much larger than total investment costs.) The annual average total costs of the basic needs approach might perhaps be in the order of \$30-40 billion for the low-income countries, which is 12-16% of their average GNP for this period, 80-105% of their gross domestic investment, and 85-110% of their government revenues (see Table 3).

8. These figures indicate that a global basic needs program which is to be implemented in a few decades cannot be financed by the poor countries and must rely heavily on transfers from the rich nations. At present, development assistance is in the order of \$13-14 billion a year. Much of this is not for basic needs related projects. Development assistance would have to undergo a radical transformation in nature, and grow at a very rapid real rate, if basic needs were to be met by the year 2000.

9. However, the requirement for foreign assistance should not be over-emphasized at the cost of attention for the crucial internal changes that are needed before basic needs programs can be implemented with success.

10. Much of the investment and maintenance effort of basic needs projects has to be generated domestically through taxation, public works, or self-help. Obviously, one cannot conclude from the investment estimates given here that

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<sup>1/</sup> Cf: World Economic and Social Indicators, April 1977.

<sup>2/</sup> For assumptions behind this calculation see Section VII.



absolute poverty will be eradicated if the rich nations provide some \$377-381 billion or a major contribution to it. The satisfaction of basic needs is fundamentally not a matter of financial resources but of mobilizing human beings by employing the right policies, technologies, and institutions. These are very serious limitations to the "count, cost and carry" approach. Therefore, the estimates cited here should be used with great caution, lest the complex qualitative aspects of the basic needs approach are reduced to some appealing but simplistic figures.1/

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1/ Preliminary World Bank staff estimates of the capital requirements of the basic needs approach have been published widely by Barbara Ward, the Overseas Development Council, and some newspapers without making reference to the many assumptions on which they were based. As a result, these figures have gained more authority than they deserve.

Table 1: Investment Cost of a Global Basic  
Needs Program for 1980-2000  
(1975 billion dollars)

	<u>Total</u>	<u>Annual</u>	
		<u>All LDCs</u>	<u>Low Income LDCs</u>
Food	28.4	1.4	1.1
Water & Sewerage	75.8	3.8	2.0
Housing	197.5	9.9	(6.6) <sup>a/</sup>
Health	25.1-29.0	1.26-1.45	.84-9.6
Education	50.6	2.5	(1.7) <sup>a/</sup>
<u>TOTAL</u>	<u>\$377.4-381.3</u>	<u>\$18.9-19.1</u>	<u>\$12.2-12.4</u>

a/ Estimated at 67% of the total investment requirement.

Table 2: Estimated Recurrent Costs for Basic Needs Strategies  
(billions of 1975 US dollars) 1/

	<u>Low</u>	<u>Medium</u>	<u>High</u> °
<u>Food</u>			
- Ratio of annual average recurrent cost to total investment cost (%)		20%	
- Annual average recurrent cost (\$bns.)		5.68	
- Total recurrent cost, 1980-2000 (\$bns.)		113.60	
<u>Water and Sewerage</u>			
- Ratio of annual average recurrent cost to total investment cost (%)		3.0%	
- Annual average recurrent cost (\$bns.)		2.27	
- Total recurrent cost, 1980-2000 (\$bns.)		45.48	
<u>Housing</u>			
- Ratio of annual average recurrent cost to total investment cost (%)	4.5%		10%
- Annual average recurrent cost (\$bns.)	8.88		19.7
- Total recurrent cost, 1980-2000 (\$bns.)	177.6		394.0
<u>Health</u>			
a) <u>Primary Health Care</u>			
- Ratio of annual average recurrent cost to total investment cost (%)		10.0%	
- Annual average recurrent cost (\$bns.)	.54		.93
- Total recurrent cost, 1980-2000 (\$bns.)	10.80		18.60
b) <u>Tropical Disease Control</u>			
- Ratio of annual average recurrent cost to total investment cost (%)		5.7%	
- Annual average recurrent cost (\$bns.)		1.12	
- Total recurrent cost, 1980-2000 (\$bns.)		22.3	
c) <u>Total Health Strategy (a &amp; b)</u>			
- Ratio of annual average recurrent cost to total investment cost (%)	6.6%		7.0%
- Annual average recurrent cost (\$bns.)	1.66		2.05
- Total recurrent cost, 1980-2000 (\$bns.)	33.10		40.90
<u>Education</u>			
- Ratio of annual average recurrent cost to total investment cost (%)		19.4%	
- Annual average recurrent cost (\$bns.)		9.8	
- Total recurrent cost, 1980-2000 (\$bns.)		195.5	
<u>Total: All Strategies</u>			
- Annual average recurrent cost (\$bns.)	28.26		39.47
- Total recurrent cost, 1980-2000 (\$bns.)	565.28		789.48

1/ See Section VII for explanation of sources

Note on Sources: Investment costs from which recurrent costs are derived are taken from the descriptions of the strategies, as summarized in Table 1. The following sources were used to derive rough estimates of recurrent cost/investment cost ratios:  
Food - FAO, "Provisional Indicative World Plan for Agricultural Development," 1970; Consultation with specialists at the International Food Policy Research Institute.  
Water and Sewerage - Average ratio derived from 7 recent and current water projects, in Egypt, Indonesia, Kenya, Sri Lanka, Syria, Tanzania, Tunisia.  
Housing - consultation with urban projects specialists in CPS.  
Health - Average ratio for primary health care derived from five population projects, in Bangladesh, India, Kenya, Malaysia and the Philippines; tropical disease eradication ratio derived from WHO, "Special Program for Research and Training in Tropical Diseases, 1976 and consultation with environmental health specialists in CPS.  
Education - consultation with education projects specialists in CPS.

Table 3: Estimates of Total Costs of Basic Needs Strategies, 1980-2000  
(billions of 1975 US dollars)

		<u>Low</u>	<u>Medium</u>	<u>High</u>
Food	- Total cost		142.0	
	- Average cost per annum		7.1	
Water and Sewerage	- Total cost		121.3	
	- Average cost per annum		6	
Housing	- Total cost	375.1		591.5
	- Average cost per annum	18.8		29.6
Health	- Total cost	58.2		69.9
	- Average cost per annum	2.9		3.5
Education	- Total cost		246.1	
	- Average cost per annum		12.3	
All Strategies	- Total cost	942.7		1,170.8
	- Average cost per annum	47.1		58.5

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Sources: Tables 1 and 2.

Table 4: Projected Target Population of a Global Basic Needs Program  
(in millions)

	Present	AD 2000	
	Estimated Population Currently Deprived 1975-1976	Projected Target Population in All LDCs	Target Population in the Low-Income LDCs
Food <sup>1/</sup>	932 <sup>a/</sup>	2,200 <sup>b/</sup>	1,500 <sup>c/</sup>
Water and Sanitation <sup>2/</sup>	1,233 <sup>d/</sup> 1,350 <sup>d/</sup>	1,700 <sup>e/</sup> 2,000 <sup>e/</sup>	1,100 <sup>f/</sup> 1,400 <sup>f/</sup>
Housing <sup>3/</sup>	Approximately 830 <sup>g/</sup>	1,700 <sup>h/</sup>	1,120 <sup>i/</sup>
Health <sup>4/</sup>	Approximately 830 <sup>j/</sup>	1,600 <sup>k/</sup>	1,000 <sup>l/</sup>
Education <sup>5/</sup>	1,100 <sup>m/</sup>	1,500 <sup>n/</sup>	1,100 <sup>o/</sup>

1/ Shlomo Reutlinger and Marcelo Selowsky, Malnutrition and Poverty, Magnitude and Policy Options, World Bank Staff Occasional Papers, No. 23 (Baltimore: Johns Hopkins University Press, 1976), p. 76.

- a. Projected population in 1975 with per capita calorie deficits in excess of 250 calories per day.
- b. Assuming (1) that calorie deficits projected by income group for 1990 are applicable for the year 2000 (where "calorie deficit" is defined as the number of calories not consumed below the minimum daily calorie requirement) and (2) the UN medium variant population growth rate of 2.09% per annum for 1990-1995 and 1.94% per annum for 1995-2000.
- c. Assuming the proportion of absolute and relative poor living in low income countries in 1976 (approximately 7/10 of the total number of poor in all LDCs) stays constant through the investment period up to the year 2000. Average calorie deficit for this group in the year 2000 is based on the projections for 1990 and is in excess of 250 calories per capita per day.

2/ United Nations Water Conference, "Report on Community Water Supplies," (Mar Del Plata, Argentina, March 1977).

- d. Ibid., p. 22.
- e. Assuming annual investment stays at present (1971-75) real levels. Ibid.
- f. Based on 1976 estimates of rural and urban poor in low income countries representing 70% and 58% respectively, of the total numbers of rural and urban poor in all LDCs. Source: World Bank, "Rural Operations Review and Support Unit," December 10, 1976; World Bank, "Urban Poverty Program Indicators," April 13, 1977. Assumes that investment will stay at present (1971-75) levels.

3/ Estimates inferred from: (1) HABITAT "Global Review of Human Settlements," (Vancouver), 1976; (2) World Bank: "Rural Operations Review and Support Unit," December 10, 1976; and "Urban Poverty Program Indicators," April 13, 1977; (3) World Bank Memorandum, "Estimated Costs for Upgrading Housing for the Urban Poor; Staffing Indications," October 8, 1975.

- g. This number should be considered a minimum estimate as it represents the poorest living in developing countries rather than specifically reflecting a target group that is known to be without adequate housing. Source: World Bank: "Rural Operations Review and Support Unit," December 10, 1976; and "Urban Poverty Program Indicators," April 13, 1977.
- h. Population figure derived from the projected medium range housing shortfall in the year 2000 (assuming on average 1.5 families per dwelling) plus the estimated backlog of 1980, multiplied by the number of persons per household.

- i. Guesstimated at 70% of the total target population.
- 4/ There is no composit total of the number of people deprived of minimum acceptable health care. It has been assumed that the number is at least equal to the number in absolute or relative poverty.
- j. Source: "Rural Operations Review and Support Unit," December 10, 1976; World Bank, "Urban Poverty Program Indicators," April 13, 1977.
  - k. Assumes UN medium variant growth rates.
  - l. Assumes the proportion of urban and rural poor residing in low income countries relative to all persons living in LDCs remains at constant 1976 levels, or 19% and 34% respectively. Ibid.
- 5/ Estimates based on World Bank, Education Sector Working Paper, December 1974.
- m. Ibid., p. 28-9.
  - n. Based on UN medium variant population growth rates, the projected number of school-age children enrolled in school, and estimates of the number of adult illiterates (i.e. all persons above the age of 15 who have not received a primary school education during the 1980-2000 period).
  - o. Guesstimate at 70% of the total target population.

## II. Food

On the basis of three World Bank studies,<sup>1/</sup> three indicative calculations can be made of the additional investment required for the extra cereal output that might close the gap between actual consumption and minimum physiological needs. For the following reasons, these calculations are highly simplified.

- a. only calorie deficits are taken into account;
- b. only the capital requirements are considered, and not the need for technical assistance; research, development, and extension; institutional change; rational price and production policies; consumer information; and other less tangible factors which are often more important than lack of funds;<sup>2/</sup>
- c. the first and lowest of the three alternatives assumes that a large part of the investment takes the shape of labor-intensive food production projects for the small farmers and landless poor in such a fashion that, by and large, the extra production generates extra purchasing power chiefly among those in need of more food; it is also assumed that the urban poor will receive adequate incomes to satisfy their food needs, and that a very low share of the extra production is consumed by those who have incomes above the level at which basic needs are satisfied;
- d. projections of foodgrain supply are derived from past production trends while imports are assumed to remain at 1974 levels. Demand projections are based on (1) income

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<sup>1/</sup> Shlomo Reutlinger and Marcelo Selowsky, Malnutrition and Poverty, Magnitude and Policy Options, World Bank Staff Occasional Papers, No. 23, (Baltimore: Johns Hopkins University, 1976); S.J. Burki and T.J. Goering, "A Perspective on the Foodgrain Situation in the Poorest Countries," Staff Working Paper No. 251, April 1977; and Sandra Hadler, "Developing Country Foodgrain Projections for 1985," Staff Working Paper No. 247, November 1976.

<sup>2/</sup> The on-going policy work on agricultural prices and subsidies should fill some of these gaps. For a preview of this work, see "Agricultural Prices and Subsidies Issues Paper" (PRC/C/77-1), January 10, 1977.

growth rates based on growth rates of GNP derived from the Bank's Simlink model and expressed in constant market prices; and (2) population growth rates based on the UN 1974 medium variants adjusted as necessary.

1. The Gap Between Consumption and Needs

According to the Reutlinger/Selowsky study, the number of people in 1965 consuming insufficient calories and calorie deficits in LDCs (excluding CPEs) equals 844 million with calorie deficit diets > 250 calories per day and 290 million with calorie deficit diets < 250 calories per day, or 56% and 10% of total LDC population respectively.<sup>1/</sup> The total deficit equals 350 billion calories, representing both the market supply-demand gap and the gap between effective demand and physiological needs.

Calorie deficits for years 1975 and 1990 were projected at 412 and 421 billion calories respectively.<sup>2/</sup> Translated into grain equivalents,<sup>3/</sup> annual calorie deficits would equal:

1965	36.5 million metric tons
1975	42.96 million metric tons
1990	43.9 million metric tons

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<sup>1/</sup> Calculated on the basis of income levels less than \$200 per capita, per annum in 1972. The total known amount of calories consumed in each region was allocated among eight income groups. The equation  $c^{\circ} = a + b [\sum w_i \ln X_i]$  is the observed per capita calorie consumption ( $c^{\circ}$ ) by income group ( $C_i = a + b \ln X_i$ ), where  $b$  equals the calorie  $y$  elasticity and is set at .15 and where  $X_i$  equals income specified to take on the semilogarithmic form (Reutlinger/Selowsky, p.12) Assumed minimum daily calorie requirements are (by region):

Latin America	2390	Middle East	2450	(Reutlinger/
Asia	2450	Africa	2350	Selowsky, p.13)

<sup>2/</sup> Reutlinger and Selowsky, op. cit., pp. 27 and 76. Based on income growth rates under Alternative A and UN population growth rate estimates.

<sup>3/</sup> It is assumed that one metric ton of cereals has 3.5 million calories. Ibid., p. 25.



At a price of \$196 per ton<sup>1/</sup> these grain equivalents would cost (per annum):

1965	\$7.15	billion
1975	\$8.4	billion
1990	\$8.6	billion

The calorie deficit of the target year 2000 is estimated to be (in grain equivalents) 53.7 million metric tons.<sup>2/</sup>

At a price of \$196 per ton and an incremental capital output ratio of 1.8<sup>3/</sup> an investment increase of \$18.9 billion would be needed to generate this additional amount of foodgrain annually. According to the Bank's experience, an additional investment of 50% of the food project outlay is required to account for "supporting" expenditures.<sup>4/</sup> This brings the total to \$28.4 billion.

In 1976 the urban and rural poor in the low income developing countries accounted for nearly 7/10 of the urban and rural poor in all LDCs.<sup>5/</sup> Assuming this proportion will remain constant and extrapolating this figure to the year 2000, it can be estimated that the number of poor suffering from malnutrition that reside in low income countries will equal 1,512.5 million, and will suffer a daily calorie deficit of close to 400 billion calories. Translated into grain equivalents, this figure equals a deficit of 41.7 million metric tons of grain each year. At an ICOR of 1.8 and a price of \$196 (1975 prices) per metric ton, the investment requirement needed to generate this additional amount

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<sup>1/</sup> Corresponds to a composite average of projected 1985 prices in 1975 dollars for wheat, coarse grains and rice weighted according to consumption share (Burki and Goering, op. cit., p. 22).

<sup>2/</sup> Assuming (1) that calorie deficits projected by income group for 1990 are applicable for the year 2000 and (2) a UN medium variant growth rate for population of 2.09% per annum for 1990-95 and 1.94% per annum for 1995-2000.

<sup>3/</sup> Ratio based on World Bank foodgrain project experience (ibid).

<sup>4/</sup> This includes complementary infrastructure, and production plants for farm inputs. Figure is consistent with estimates in FAO's Indicative World Plan, ibid.

<sup>5/</sup> Source: World Bank, "Rural Operations Review and Support Unit," Agriculture and Rural Development Report, CPS, December 10, 1976; World Bank, "Urban Poverty Program Indicators," April 13, 1977.

equals \$14.7 billion. An additional investment of 50% of the food project outlay brings this total to \$22.05 billion.

Meeting the expected shortfall in target year 2000 for all LDCs would mean a \$1.42 billion increase (in 1975 dollars) in agricultural investment annually over a twenty year period (1980-2000). However, to insure that food production was adequate to meet food needs by 2000, the investment requirement of \$28.4 billion should be concentrated in the first ten years (1980-1990). For low income countries alone, annual investment would equal \$1.10 billion from 1980-2000. Again, investment should be greater in earlier years to insure adequate food supplies later. If this were to be financed only by foreign sources, development assistance to the foodgrain sector would have to increase sharply. For comparison, current levels of external assistance are estimated to amount to nearly \$6 billion per annum (1975 dollars)<sup>1/</sup> for all LDCs and \$3.2 to \$3.8 billion per annum (1975 dollars) going only to low income countries<sup>2/</sup> (those with per capita income of less than \$200 in 1973).

## 2. The Supply-Needs Gap of the Poorest Nations

The "Lending for Foodgrain" study calculates food deficits in a different manner. It is concerned only with shortfalls in the poorest countries, those with average per capita incomes of less than \$200 in 1973.<sup>3/</sup> The population total of these countries is 1.2 billion (1973).

Market deficits for food were estimated by matching food supply and food demand projecting for 1985 using World Bank forecast prices for grains in 1973 constant dollars.<sup>4/</sup> Taking into account

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<sup>1/</sup> Consultative Group on Food Production and Investment in Developing Countries, Document D, "Further Analysis of Resource Flows in Agriculture," September 1976.

<sup>2/</sup> Burki and Goering, op. cit., p. 23.

<sup>3/</sup> Base period for relative prices and exchange rates is 1972-74, GNP at market prices and GNP per capita are expressed in current 1973 dollars.

<sup>4/</sup> Projections regarding foodgrain demand, production and inputs were taken from Hadler, op. cit., pp. 1-53.

Supply projections were based on foodgrain trends in production (1960-1974), altered where considered necessary by commodity specific and other information. Demand projections reflected assumptions regarding population and income expansion. Population projections were based on UN 1974 medium variants, adjusted as necessary. GNP growth rates in constant market prices, 1972-74=100, were derived from the World Bank's Simlink model and approximate UN targets for Development Decade II.

different levels of plausible income and population growth rates, a feasible range in demand and production projections of nominal deficit in 1985 would be 20 to 45 million metric tons for the poor countries.<sup>1/</sup> Adding a consumption-need gap of 25 million tons that is assumed to represent existing nutrition deficiencies in the poor countries (inferred from the Reutlinger/Selowsky model), the sum, 45 to 70 million metric tons, is the difference between the production of the poor countries in 1985, and the quantity required to provide adequate nutrition for their populations.<sup>2/</sup> Subtracting for postulated foodgrain imports of 15 million metric tons<sup>3/</sup> brings the shortfall down to 30 to 55 million metric tons.

For indicative purposes, a target increase of 45 million metric tons was proposed by the study as a reasonable estimate of extra production required to provide minimally adequate nutrition for the poor countries in 1985. At \$196 per ton (in 1975 prices) and applying alternative incremental capital output ratios deemed feasible from past World Bank project experience,<sup>4/</sup> an investment increase of \$20-\$30 billion in 1975 prices would be needed to generate this additional amount of foodgrain.<sup>5/</sup> At minimum, this would mean at \$4.0 billion increase (in 1975 dollars) in agricultural investment annually over a five year period (1978-1982) to allow for normal project maturation.

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<sup>1/</sup> Burki and Goering, op. cit., p. 13.

<sup>2/</sup> Assuming (1) simultaneous occurrence of low growth in production and high growth in market demand is unlikely as a slower output growth implies a smaller increase in per capita income than that assumed in the base demand projection; and (2) rapid output growth is not consistent with a slow demand unless (for example) the distribution of incomes from the increased production is highly concentrated.

<sup>3/</sup> Burki and Goering, op. cit., pp. 18-19.

<sup>4/</sup> ICORs are computed from base data with dollar amounts adjusted to 1975 dollars by the Index of International Inflation, Manufactured Exports from Developed Countries, Ibid., Annex II.

<sup>5/</sup> For the purpose of prospective planning, the study used an ICOR of 1.8, which implies additional foodgrain expenditure of approximately \$16 billion in 1975 prices over 1978-1982. An additional "supporting" expenditure of at least 50% of the \$16 billion would bring the total to around \$25 billion in 1975 prices.

This second estimate of \$20 to \$30 billion is not entirely comparable to the first one of \$28.4 billion. The \$28.4 billion estimate applied to producing food only for hungry people, whatever the average GNP per capita of the country they live in. The \$20-\$30 billion estimate applies to the food gap of the poorest nations. These groups overlap only to some extent. The most impoverished will tend to be concentrated in low income countries. The foodgrain study, however, does not include countries with an income per capita greater than \$200 in 1973, consequently eliminating the impoverished among approximately 60% of the total LDC population, while including the extra consumption by individuals with incomes above the basic needs level who live in low-income countries.

The Reutlinger/Selowsky study calculated food deficiencies on the basis of calorie deficits by income group in all LDCs. By identifying the extent of the actual consumption-physiological need gap, the study addressed the immediate problem of malnutrition and aimed directly at the lowest income earning groups. The study does not explicitly identify the gap in market supply and demand. On the other hand, the foodgrain study calculated deficits by nations on the basis of the gap in market production and demand, and had to account for malnutrition levels (or gap in effective demand and physiological need) by adding an additional 25 million metric tons.

### 3. The Supply-Needs Gap of All LDCs

It is difficult to extrapolate foodgrain study projections in order to apply them to all LDCs, yet for comparison purposes it can be done in the following simplistic manner. Net deficits in market production and demand were projected for all LDCs in 1985 to be 75 million metric tons.<sup>1/</sup> As this figure does not account for the gap between effective demand and physiological need, and therefore does not reflect the lack of purchasing power and proper nutrition habits among the poor, an extra 25 million tons may have to be added to account for this. Using the same methodology to extend the above cited projections of the food-grain deficit in the poorest countries to all LDCs in 1985, the resulting investment requirement would be about \$53 billion in 1975 prices.<sup>2/</sup> This is not a realistic figure, but it is given anyway to demonstrate the infeasibility of solving the food problem by extra production without regard to the need for better distribution.

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<sup>1/</sup> Hadler, op. cit., p. 21.

<sup>2/</sup> Assuming an ICOR of 1.8, a price of \$196/ton, and 50% extra supportive investment.

Of the three different estimates, the first of \$28.4 billion reflects most closely the basic needs approach. It assumes that all extra food produced by the extra investment would be consumed only by those in need. If production and consumption patterns remain such that only a small part of the extra food will be available for the poor, then much higher levels of investment are required. It should be noted that all three estimates assume that the food needs of the poor have to be satisfied by extra production. However, present world production is already adequate to feed everyone if it were distributed more equally. Thus, countries which are able to reduce the inequality of food (and income) distribution, e.g., by redistribution of food to the poor out of existing supplies may be able to solve the malnutrition problem at a cost much below that implied in the first estimate of \$28.4 billion.

### III. Drinking Water and Sewerage

It has been estimated that reasonably safe supplies of drinking water<sup>1/</sup> are unavailable for at least one-fifth of the world's urban population and three-quarters of its rural. And in many countries, particularly the LDCs, less than one-half of the urban population and less than one-tenth of the rural population are served with an adequate and safe water supply.<sup>2/</sup> Globally there may be potentially enough water to meet present and forthcoming needs, but it tends to be concentrated geographically in certain areas, and hence is inaccessible to a large percentage of the world's population. Moreover, even when available, existing water supplies are often of poor quality - even dangerous to the consumers' health. Accessible water supplies are useless if they are unsafe for human consumption. The importance of sanitation in the control of diseases such as diarrhea, typhoid and paratyphoid fevers, salmonellosis, cholera, infectious hepatitis, amoebiasis and giardiasis cannot be underestimated.

For the following reasons, global estimates of the costs of eliminating the shortfall in sanitary and water supply facilities are only indicative:

- a) It is assumed that the unit costs per capita in constant dollars for services that were derived from 1973 data will apply for target date 2000; hence, real prices of water and sewerage facilities are assumed to remain constant;
- b) The estimate considers only total financial resource requirements. No account of who will pay for services is made, and consequently the limitation of financial resources as a restraint for setting goals is not considered as its impact is difficult to measure on a global basis.
- c) Non-financial constraints are not taken into consideration. Important factors such as (1) the time required for the development of suitable manpower, and the hydrogeological and hydrological explorations to assess resources; (2) the capacity to plan; and (3) the ability to service the infrastructure, particularly operation and maintenance, are left aside.
- d) The estimates are of the back-of-the-envelope type. The validity or even usefulness of global cost estimates is no doubt arguable. Many "heroic" assumptions have been made and the less-tangible factors, albeit important, have been ignored.

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<sup>1/</sup> (a) "Reasonable Access" is defined as follows: in urban areas, within 200 meters of a public hydrant; in rural areas, sufficiently close that family members do not spend a disproportionate part of the day in fetching water.

(b) "Safe Water" includes treated surface water or untreated but uncontaminated water such as that from springs, protected boreholes, or sanitary wells. Other waters of doubtful quality are classified as unsafe. Source: World Bank, "Village Water Supply," March 1976, p. 77.

<sup>2/</sup> UN Water Conference, "Resources and Needs: Assessment of the World Water Situation" (Mar Del Plata, Argentina) March 1977, p. 5.

Country-to-country variations in existing resources and services make the reliability of unit costs per capita of sanitation and water supply facilities tenuous at best, and globally are even more suspect. Moreover, it must not be overlooked that many urban water supply systems are so overloaded that intermittent supply is resorted to in order to ensure water to all metropolitan areas. In addition, a considerable quantity of water is "unaccounted for" (i.e., undetected leakage, unauthorized use, unmetered supply). WHO has guessed this to be between 20% and 50% of treated water leaving the waterworks.<sup>1/</sup> Rural water supply systems have been constructed at great expense, only to remain idle from the lack of maintenance.

Nonetheless, it is essential for the indicative purposes of this basic needs paper to establish some sort of global cost estimate in order to get a better idea of the overall costs of basic-needs strategy, if not merely to establish the basis for future, more careful analyses.

#### 1. Targets

The Habitat Conference has recommended inter alia, that in most countries urgent action is necessary to:

- (1) adopt programs with realistic standards for quality and quantity to provide water for urban and rural areas by 1990, if possible; and
- (2) adopt and accelerate programs for the sanitary disposal of excreta and waste water in urban and rural areas. 2/

To establish targets, the given rate of investment and program mix for community water supply and sanitation services in a country or region of a country is determined by a number of parameters:

- (1) the percentage of people served;
- (2) the time taken to serve them;
- (3) the standard or level of service provided.

By varying any one of the parameters, the others could be changed, and are, therefore, interdependent. Adopting cost reducing measures or services that take a minimal amount of time to serve a maximum number of people would require different investment and program mixes depending on the target percentage of population to be served. Here we are concerned with

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<sup>1/</sup> UN Water Conference, "Report on Community Water Supplies," (Mar Del Plata, Argentina), March 14-25, 1977, p. 6.

<sup>2/</sup> Ibid., p. 9.

basic-needs requirements which are to provide a basic minimum level of service to all the population as quickly as possible without sacrificing the basic minimum standards needed for public health protection.

For the purpose of establishing a range of investment, alternative scenarios can be considered by varying the size of the target population to be served by adequate water supply and sanitation facilities. The investment period is 20 years (1980-2000) and the target date for project completion is 2000. 1/ The targets and investment requirements of the alternative strategies are presented in Annex Table I.

Scenario 1: Assuming that per annum investment remains unchanged from that of the 1971-1975 period, the additional number of people that would benefit from the estimated investment per annum from 1980 to 2000 would equal four times the additional population that was served during 1971 to 1975. Given this assumption, the percentage of population served in 2000 would be as follows:

	<u>Community Water Supply</u>				<u>Sanitation</u>			
	<u>Urban</u>			<u>Rural</u>	<u>Urban</u>			<u>Rural</u>
	hc*	sp**	total		hc	hs***	total	
Projected Percent Served in 2000	56	19	75	43	17	45	63	26
Estimated Percent Served in 1975	57	20	77	22	25	50	75	15

\*house connections

\*\*public standposts

\*\*\* household system

Calculated on the basis of: UN Water Conference "Report on Community Water Supplies," March 1977.

This table shows that continuation of current investment levels might lead to a worsening of the situation in urban areas and perhaps an improvement in rural areas.

Scenario 2: Based on the results of a mid-decade review of the water supply situation completed in 1975, the WHO revised its second Development Decade targets. The WHO has set as its target date 1980, but for the purpose of this paper, the target date

1/ The sizes of populations for years 1975 through 2000 are as follows for less developed countries (excluding China):

	<u>1975</u>	<u>1980</u>	<u>1985</u>	<u>2000</u>
Urban	586	681	844	1499
Rural	1409	1604	1768	2245
<u>Total</u>	<u>1986</u>	<u>2285</u>	<u>2612</u>	<u>3744</u>

Source: Based on UN Population Division medium variant estimates.



has been changed to 2000. Due to population growth, the consequence of the change would be to increase the amount of additional people that will have to be served in 2000 to maintain WHO's 1980 targets; and hence the overall investment requirement would be larger in 2000 than in 1980.

	<u>Community Water Supply</u>			<u>Sanitation</u>				
	<u>Urban</u>		<u>Rural</u>	<u>Urban</u>			<u>Rural</u>	
	hc	sp	total	hc	hs	total		
Projected Percent Served in 2000	68	23	91	36	38	56	94	24

Calculated on the basis of: WHO, "Community Water Supply and Waste Water Disposal," (Mid-Decade Progress Report), May 1976 (A29/12 Rev. 1).

Under this scenario, significant improvement is noted in the urban areas; however, the rural populations would still be largely underserved.

Scenario 3: In response to the goals agreed upon at the United Nations Conference on Human Settlements in May/June 1976 (HABITAT), the WHO has reassessed the situation in collaboration with IBRD, and has proposed a new set of targets for both community water supply and sanitation facilities. For both, the goals are to provide 100% of global needs by 1990. Here, the target date has been changed to 2000, and it has been assumed that the proportions of the urban population supplied with water and sanitation house connections or standposts and house systems are to grow at a constant rate until 100% of the population has been served.

	<u>Community Water Supply</u>			<u>Sanitation</u>				
	<u>Urban</u>		<u>Rural</u>	<u>Urban</u>			<u>Rural</u>	
	hc	sp	total	hc	hs	total		
Projected Percent Served in 2000	71	29	100	100	34	66	100	100

Source: Figures extrapolated from those obtained in UN Water Conference, "Report on Community Water Supplies," January 1977, E/CONF. 70/14.

Scenario 4: Assuming the same goals for target date 2000 (100% of the population to be served by adequate water supplies and sanitation facilities) but altering the shares of urban population to be served so that they will only be provided with (1) lower cost public standposts for water, and (2) house connections to public sewers, which are higher in cost but essential for adequate sanitation in high density areas. These provisions are intended to cover a maximum number of people in the shortest period of time possible given minimum standard requirements.

	Community Water Supply			Sanitation				
	Urban		Rural	Urban		Rural		
	hc	sp	total	hc	hs	total		
Projected Percent Served in 2000	29	71	100	100	76	24	100	100

Source: Figures extrapolated from those obtained in: UN Water Conference, "Report on Community Water Supplies," January 1977, E/CONF. 70/14.

## 2. Implementation and Resource Requirements

To determine the required level of investment under alternative scenarios, estimates of unit costs per capita have been derived from the most recent WHO report, based on previous surveys. All figures have been converted to 1975 dollars using the average index of consumer prices in non-oil developing countries.<sup>1/</sup>

Scenario 1: If the investment per annum remains at the real level of 1971-75,<sup>2/</sup> the percentage of the urban population served would decline slightly but that of the rural population might improve. Investment levels would remain roughly \$3,000 million per annum, or \$59,224 million over the 20 year (1980-2000) period (in 1975 dollars).

Scenario 2: To meet the WHO target levels that were first revised following the 1975 survey, required annual investment would have to increase from \$2,960 million to \$4,960 million (in 1975 dollars) to a total of \$99,221 million over the 20 year investment period. This represents a shortfall of \$40,000 million (in 1975 dollars) over the 20 year period.<sup>3/</sup>

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<sup>1/</sup> Based on the IMF's International Financial Statistics. See also: UN Water Conference, "Report on Community Water Supplies," op. cit., p. 9.

<sup>2/</sup> National and external investment levels have been roughly estimated for 1971-1975 through a projection of limited information available from approximately 50 countries in the latest WHO Survey (1975), the complete breakdown of which can be found in Table 2, UN Water Conference, Ibid., p. 22. The figures show that most of the investment comes from the developing countries themselves. External aid as a percentage of total investment for Community Water Supply has constituted only 12% for urban areas, 9% for rural; and for sanitation, 5% for urban areas and 0.5% for rural.

<sup>3/</sup> See Annex Table I.

Scenario 3: To meet the newly proposed WHO targets of 100% of urban and rural populations to be served by 1990 (revised for our purposes here to target date 2000), required annual investment would have to increase to \$6,708 million (in 1975 dollars) per annum, or \$134,152 million over 20 years. This represents a shortfall of roughly \$75,000 million (in 1975 dollars) over the 1980-2000 period. 1/

Scenario 4: This scenario suggests keeping the same total percentage of urban and rural population to be served by target year 2000 (100%), but alters the services offered to the urban population, so that the additional population to be served will be provided only with (1) lower cost public standposts for water, and (2) house connections in urban areas to public sewers (to serve a maximum number of people in the allotted time frame). The required annual investment would increase slightly to \$6,755 million (in 1975 dollars) or \$135,091 million over the 20 year period. The total shortfall for 1980-2000 would be \$75,870 million (in 1975 dollars). This estimate is higher than Scenario 3 as the unit cost per capita of house connections to public sewerage systems is more expensive than house systems.

Conclusion

Depending on the percentage of population to be served and the level of service to be provided, investment requirements for the 20 year-period 1980-2000 would range from \$59,200 million (in 1975 dollars) if investment levels do not increase from those of the 1971-75 period, to \$135,100 million (in 1975 dollars) under the conditions specified in Scenario 4.

This last "basic needs" scenario would mean an annual investment of \$6,755 million (in 1975 dollars), or a net increase of about \$3,800 million (in 1975 dollars). If the target populations to be covered by 2000 were limited to the poorest in the low income developing countries, 2/

1/ See Annex Table I.

2/ Based on 1976 estimates\* of rural and urban poor in low income countries, representing 70% and 58% respectively of the poor in all LDCs. If investment stays at present (1971-75) levels, the number effectively not served by 2000 is projected as follows:

	<u>Water Supply</u>		<u>Sanitation</u>	
	<u>Total Poor Not Served</u>	<u>Poor Residing in Low Income Countries Only</u>	<u>Total Poor Not Served</u>	<u>Poor Residing in Low Income Countries Only</u>
Urban	379 million	220 million (58%)	362 million	210 million (58%)
Rural	1277 million	894 million (70%)	1661 million	1163 million (70%)

\*Source: World Bank, "Rural Operations Review and Support Unit," Agriculture and Rural Development Dept., DPS, December 10, 1976, World Bank, "Urban Poverty Program Indicators," April 13, 1977.

the additional investment requirement would equal \$40,837 million (1975 prices) or \$2,042 million per annum over the investment period (1980-2000). 1/

In the past, developing countries have traditionally provided much of the investment themselves, but the percentage of population served has remained low, particularly in rural areas. Consequently, much of the additional investment required above 1971-75 levels, up to \$76,000 million under Scenario 4, would have to be met by external sources of finance. The levels of additional finance discussed here are highly unlikely to become available given present trends. Although the estimated figures have no concrete significance, they are a necessary part of this indicative effort to calculate roughly the financial resource requirements of a package of basic goods and services for all in need by 2000.

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1/ Estimate assumes the target urban population will be served only by street standposts and household connections to public sewerage systems.

Annex Table 1: Alternative Scenarios for Basic Community Water Supply and Sanitation Needs Strategy

	<u>SCHEME I</u>				<u>Sanitation</u>				<u>SCHEME II (Revised D011 Targets by WIG Extended to 2000)</u>				<u>Sanitation</u>			
	<u>CWS</u>				<u>Urban</u>				<u>CWS</u>				<u>Urban</u>			
	<u>hc</u>	<u>sp</u>	<u>total</u>	<u>rural</u>	<u>hc</u>	<u>ha</u>	<u>total</u>	<u>rural</u>	<u>hc</u>	<u>sp</u>	<u>total</u>	<u>rural</u>	<u>hc</u>	<u>ha</u>	<u>total</u>	<u>rural</u>
Population served in 1975 (millions)	335	115	450	313	148	289	437	209	335	115	450	313	148	289	437	209
Additional population served in 1971-75 (millions)	100	34	134	131	22	78	100	75	100	34	134	131	22	78	100	75
Assumed population served in 1980 (millions)	435	149	584	444	170	367	537	284	435	149	584	444	170	367	537	284
Assumed 2000 target (% population)	56	19	75	43	17	45	63	26	68	23	91	36	38	56	94	24
Population in 2000 (millions)			1499	2245			1499	2245			1499	2245			1499	2245
Population served in 2000 if target reached	835	285	1120	968	258	679	937	584	1019	345	1364	808	570	839	1409	533
Additional population served 1980-2000	400	136	536	524	88	312	400	300	584	196	780	364	400	472	872	255
Unit cost per capita (1975 dollars)	79	31	--	17	73	23	--	3	79	31	--	17	73	23	--	3
Investment required to reach target (1975 dollar millions)	31600	4216	35816	8908	6424	7176	13600	900	46136	6076	52212	6188	29200	10856	40056	765
Investment required per annum, 1980-2000 (dollar millions)	1580	211	1791	445	321	359	680	45	2307	304	2611	309	1460	543	2003	38
	<u>SCHEME III (HABITAT - WHO Proposal Extended to 2000)</u>				<u>Sanitation</u>				<u>SCHEME IV (HABITAT Targets Redefined)</u>				<u>Sanitation</u>			
	<u>CWS</u>				<u>Urban</u>				<u>CWS</u>				<u>Urban</u>			
	<u>hc</u>	<u>sp</u>	<u>total</u>	<u>rural</u>	<u>hc</u>	<u>ha</u>	<u>total</u>	<u>rural</u>	<u>hc</u>	<u>sp</u>	<u>total</u>	<u>rural</u>	<u>hc</u>	<u>ha</u>	<u>total</u>	<u>rural</u>
Population served in 1975 (millions)	335	115	450	313	148	289	437	209	335	115	450	313	148	289	437	209
Additional population served 1971-75 (millions)	100	34	134	131	22	78	100	75	100	34	134	131	22	78	100	75
Assumed population served in 1980 (millions)	435	149	584	444	170	367	537	284	435	149	584	444	170	367	537	284
Assumed 2000 target (% population)	71	29	100	100	34	66	100	100	29	71	100	100	76	24	100	100
Population in 2000 (millions)			1499	2245			1499	2245			1499	2245			1499	2245
Population served in 2000 if target reached (millions)	1064	434	1499	2245	510	989	1499	2245	435	1064	1499	2245	1132	367	1499	2245
Additional population served 1980-2000 (millions)	629	285	915	1801	340	622	962	1961	--	915	915	1801	962	--	962	1961
Unit cost per capita (1975 dollars)	79	31	--	17	73	23	--	3	79	31	--	17	73	23	--	3
Investment required to reach target (1975 dollar millions)	49691	8835	58526	30617	24820	14306	39126	5883	--	28365	28365	30617	70226	--	70226	5883
Investment required per annum, 1980-2000 (dollar millions)	2485	442	2926	1531	1241	715	1956	294	--	1418	1418	1531	3511	--	3511	294
<u>Comparison of Schemes</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>												
7 population served in 2000:																
CWS - urban:	75	68	100	100												
- rural:	43	23	100	100												
SAN - urban:	63	91	100	100												
- rural:	26	36	100	100												
Total investment required 1980-2000 in millions of 1975 dollars:	59224	99221	134152	135091												
Investment per annum 1980-2000 (1975 dollar millions):	2961	4961	6708	6755												

CWS - Community Water Supply  
hc - house connections  
sp - public standposts  
ha - household systems

#### IV. Housing

In recent years housing conditions have significantly worsened in most LDCs. The most important reasons include:

- a. the rapid growth of population;
- b. the increasing influx of rural migrants into urban areas;
- c. the decline in the growth rate of national output which has resulted in slower increases in household income while consumer prices have risen more rapidly than wages, especially for low income groups;
- d. prices of land and housing have generally increased more rapidly than those of other consumer commodities.

Data on the world housing situation are very inadequate. The United Nations has conducted a World Housing Survey over a period of ten years (1965-1974), in an attempt to assess global housing conditions. 1/ The survey covered 60% of the global populations, with 97% coverage in developed regions, but only 31% coverage in the LDCs. Little or nothing is known about the housing conditions of the other 40% who are located entirely in developing countries. What is known is that in 1970 31% of the LDC population was housed in 146 million units at the rate of 183 dwellings per 1,000 inhabitants. It appears that between 16 and 50% of the LDC population lives in urban areas, with the exception of Colombia, Brazil and Hong Kong where over 50% of the dwellings are in urban areas. 2/

For the purpose of the Basic Needs Global Estimates paper, a rough projection of housing shortfalls through 2000 has been made in order to get a rough idea of the costs of providing adequate basic housing on a global basis to those that do not have it. For a number of reasons, these figures should be used only with great caution:

- a. The available information refers to only 31% or 795 million inhabitants of developing countries (1970). Thus, actual numbers of people living in inadequate housing or living unhoused can only be guesstimated. For indicative purposes, it can reasonably be assumed that at least the poorest living in developing countries will not have adequate housing. In 1976, this number totalled 831.5 million people. 3/

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1/ UN, World Housing Survey, 1974 (Department of Economic and Social Affairs, New York), 1976.

2/ Ibid., p. 140.

3/ Based on absolute or relative poverty threshold, whichever is higher. This estimate should be considered a minimum as not all LDCs are included. See: World Bank, "Rural Operations Review and Support Unit," 12/10/76; and World Bank, Urban Poverty Program Indicators, 4/13/77.

- b. Unit costs of housing projects are based on the average costs of selected World Bank projects. Definitions, requirements and standards vary enormously in such projects; in a particular case costs may be up to 400% above or below these averages. Costs and prices are assumed to remain constant in real terms throughout the investment period;
- c. Existing data do not account for unauthorized housing construction or existing unauthorized stock (i.e. uncontrolled or transitional settlements). Therefore, housing construction rates are underestimated. On the other hand, available data on existing stock do not account for the quality of housing in rural areas. For example, the adequacy of housing is not included as a factor in HABITAT estimates of existing known stock in 1970. If adequacy were to be taken into account then it would be reasonable to assume that existing known and estimated unknown stock in 1970 would both overestimate levels of adequate housing.
- d. In spite of efforts to standardize data collection procedures by the UN, definitions employed at the national level for data collection (such as defining "urban" and "rural" areas) differ significantly from country to country;
- e. Wide variations in climate and housing conditions of various countries make cross-country comparisons difficult. Furthermore, there are even large variations in housing conditions among urban areas of similar size, income and growth. Not only the resource potential but the mobilization of existing resources, and the efficiency and equity with which they are applied are critical factors in analyzing housing situations. These factors are difficult to quantify and make generalizing hazardous.

Due to the lack of global data on housing conditions in developing countries, two methods of calculating housing requirements through the year 2000 have been used. The first method sets as its target the poorest living in developing countries of whom it can reasonably be assumed are without adequate housing. The second method draws on information acquired from the World Housing Survey that projects shortfalls in authorized construction based on a construction rate too low to meet anticipated needs arising from population growth and replacement. As neither approach is satisfactory and does not consider the level of income that would be required to purchase basic housing, for comparative purposes an estimate of the level of subsidy required to "close" the gap in effective demand and basic need has also been included.

A. Method #1

1. Shortfalls and Future Needs

It can conservatively be assumed that the number of people living in developing countries without adequate housing includes at least the absolute poor. The target population that would then be served in the year 2000 might equal 1,100 million living in rural areas and 498 million living in urban areas. 1/ If low income developing countries were only to be served, the target population might equal 763.36 million in rural areas and 284.8 million in urban areas. 2/ Assuming a medium range variable of 1.5 households or 9 persons per dwelling unit, the number of required units to be built equals:

(Millions of Units)

	<u>Urban Population</u>	<u>Rural Population</u>
All LDCs	55	122
Low-Income LDCs	32	85

2. Cost Estimates

World Bank experience with regard to housing projects in urban areas has centered around two types of activities: sites and services and slum upgrading projects. However, for reasons already stated (lack of data, variations in housing requirements and conditions between countries), the unit costs that will be used here do not make this distinction. Calculating resource requirements in terms of sites and services versus slum upgrading activities would only lead to serious cost distortions. For example, in some cases capital costs of upgrading projects in urban areas may exceed those of constructing new settlements in rural regions. In any event, the net result is the same: to provide adequate settlements and services to those that are deprived of them. Therefore unit costs are tabulated in terms of the resource requirement needed to construct a basic dwelling structure with a reasonably acceptable level of communal services. These services include water and sewerage facilities. As this overlaps with another basic needs strategy, the overall investment requirement may be exaggerated.

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1/ Based on World Bank Staff, "Rural Operations Review and Support Unit", op. cit. World Bank Staff, "Urban Poverty Program Indicators", op. cit. Assuming UN medium variant growth rates up to the year 2000.

2/ Ibid.



At \$1,000.00 per unit (1975 prices) 1/, the cost of constructing new settlements equals:

(Billions of 1975 Dollars)

	<u>Urban Population</u>	<u>Rural Population</u>
All LDCs	\$55	\$122
Low-Income LDCs	\$32	\$ 85

The total investment requirement for 1980-2000 equals \$177 billion (\$8.85 billion per annum) for all LDCs, and \$117 billion (\$5.85 billion per annum) for low-income countries only.

B. Method #2

1. Shortfalls and Future Needs

HABITAT set a DDII target of constructing 8 to 10 units per 1000 population each year to meet population growth and replacement needs alone during the decade. However, the annual average rate of construction in the LDCs has been estimated at 1.8 per 1000. 2/ This indicates the existence of a significant construction shortfall.

Given an existing known stock in 1970 of 145.8 million units, 3/

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- 1/ Costs are based on data from 10 Bank-financed projects (1973-75), and were obtained by taking the median unit cost for communal services infrastructure (per M<sup>2</sup>), multiplying it by 100 M<sup>2</sup> (the average size plot) and then adding the cost of housing construction for a 25 M<sup>2</sup> unit. Although the cost that has been described is roughly \$1,000.00 it is important to realize that requirements and standards vary enormously and may be up to 400% above or below this average. Infrastructure includes water and sewerage, roads and drainage, street lighting, site survey and earthworks, and excludes the costs of the following: land, supervisors and engineering, contingencies, interest during construction, off-site infrastructure and community facilities. All costs are updated to 1975 levels at 10% for 1972, 10% for 1973, and 15% for 1974. More detailed data may be found in IBRD "Survey and Analysis of Urbanization Standards and On-Site Infrastructure", 1974.
- 2/ HABITAT "Global Review of Human Settlements", (Vancouver), 1976, Table 4.5, p. 161.
- 3/ Figure determined by the World Housing Survey of 1974. HABITAT, "Global Review of Human Settlements", op. cit., p. 139, Table 4.

the (1) existing unknown dwelling stock,<sup>1/</sup> and (2) projected required stock for "n" year, <sup>2/</sup> were calculated at 1.5 households per unit where 1 household equals 6 persons. <sup>3/</sup> Projected construction was also calculated based on an average annual construction rate of 1.8. <sup>4/</sup> The shortfall equals the difference between projected required stock and projected existing stock for the particular period under consideration. The following table illustrates the estimated shortfall for 1980-2000.

1/ Formula and figures were adopted from Table 4.1 in HABITAT, "Global Review of Human Settlements," Ibid.  $Dy = Dx \frac{(Py)}{(Px)} \frac{(hx)}{(hy)} (1/k)$

where: Dx = Dwelling stock known (145.8)  
 Dy = Dwelling stock unknown  
 Px = Population accounted for (31% coverage or 795 million)  
 Py = Population unaccounted for (958.7)  
 hx = no. per household in Dx (6.2)  
 hy = no. per household Dy (6)  
 k = no. of households per dwelling unit (1, 1.5, 2)

2/  $Dy + Dx + [\text{no. required for population increases}] + [\text{replacement}]$   
 or  $Dy + Dx + \frac{[P_n - P_1]}{hs} \cdot 1/k + [.01 (Dy + Dx) \times n \text{ years}]$

where: Dy = estimated unknown stock  
 Dx = estimated known stock  
 P<sub>n</sub> = population at the end of the period  
 P<sub>1</sub> = population at the beginning of the period  
 hs = average size household (6)  
 k = number of households per dwelling unit (1, 1.5, 2)

3/ Costs of housing construction have been established by the World Bank in terms of six persons per household, based on the experience of Bank financed housing projects. See: The World Bank Operational Manual Statement, "Typical Unit Costs of Common Project Items."

4/ 1.8 = the number of conventional dwellings constructed each year per 1000 mid-year population for the year. LDC population under consideration: (excluding China)

	<u>total thousands</u>	<u>urban</u> <u>millions</u>	<u>rural</u> <u>(millions)</u>
1970	1753742	(25%) 438	1316
1975	1996487	(27.3%) 545	1451
1980	2284529	(29.8%) 681	1604
2000	3744592	(40.8%) 1499	2245

Source: Based on UN Medium Variants.

	REQUIRED STOCK			EXISTING STOCK		
	For Population Increase	For Replacement	Total*	Projected Construction	Total*	Shortfall
1980-2000	162	58	522	108	410	112

\*Totals include an estimated existing stock in 1980 of 302 million units.

Estimating the extent of the backlog in 1980 is difficult. Based on data compiled in a World Bank Staff Study,<sup>1/</sup> the number of people living in inadequate housing in urban areas has been projected for 1980 to be 245 million or about 36.5% of the total urban population. However, estimating the number of inadequate houses in rural areas is extremely hazardous as data on the subject are nonexistent. For want of better information, it will be assumed that the poorest living in rural areas live in inadequate housing. That number in all developing countries equaled 646.8 million in 1976. <sup>2/</sup> If UN medium variant growth rates are assumed, that number will swell to 710.33 million by 1980.

In summary, the backlog for 1980 may include 955.3 million people: 245 million living in urban areas, and 710.33 million living in rural areas. Translated into dwelling units (at 6 persons per household and 1.5 households per dwelling unit), the number of units required as of 1980 will equal 106 million.

Cost Estimates

The investment requirement for projected housing shortages additional to the backlog were calculated for the investment period of 1980-2000 at a cost per unit of \$1,000.00 (1975 prices).

<u>Shortfall (Millions of Units)</u>	GROSS INVESTMENT REQUIREMENTS FOR 1980-2000	
	Cost (1975 prices - billions of US\$)	
	<u>Total</u>	<u>Per Annum</u>
218	218	\$10.9

<sup>1/</sup> World Bank Memorandum, "Estimated Costs for Upgrading Housing for the Urban Poor; Staffing Implications," October 8, 1975. Population under consideration was that portion of the urban population in Bank member countries not served with basic utilities (i.e. water supply and human waste disposal), taking into account population growth rates and rural to urban migration.

<sup>2/</sup> Based on World Bank Staff "Rural Operations Review and Support Unit," December 10, 1976.

The \$41 billion difference between the two estimated investment requirements (\$218 billion versus \$177 billion) illustrates the arbitrary nature of the methods used to project global costs of basic needs delivery. The numbers are extremely sensitive to changes in variables and assumptions used. On the one hand, it is doubtful whether the estimated construction rate of 1.8 means very much, particularly since authorized construction is the only observed part of the variable (and only partially observed at that). As a result, the low annual rate of construction may exaggerate the extent of housing shortfalls. On the other hand, the alternative method is perhaps a too conservative estimate of the capital requirement for adequate housing as it focuses only on the poorest living in developing countries (that are assumed to be without adequate housing) rather than a specific target group known to be without adequate housing. To account for these biases, the midpoint between the two estimates will be selected as the investment needed to satisfy housing requirements by 2000: \$197.5 billion or \$9.9 billion per annum from 1980-2000.

### C. The Effective Demand - Needs Gap

As a point of comparison, the gap between effective demand and needs was determined for the year 2000 based on the level of household income required to purchase low cost housing at six persons per household.

Assuming a very basic dwelling unit cost of \$1,000.00 and 20% of the midpoint of the column 1 income class as household income devoted to housing, approximately \$64 billion would be required globally as subsidy to make up the gap.

(Per Capita) Income Range 1/	(Millions)		Maximum Annual Household Expenditure for Housing 4/	Implied Value of House 5/	Effective Demand Needs Gap if Minimum Housing Costs \$1,000 6/
	Number of Families as of 1980 2/	Increase in Number of Families During the Period 1980-2000 3/			
Under 62.5	67.2	35.4	\$ 37.50	\$ 375.0	\$64.0 Billion
\$ 63.75 - 125.00	126.1	48.7	\$113.25	\$1,132.5	
\$126.25 - 187.50	63.9	33.6	\$118.25	\$1,182.5	
\$188.75 - 250.00	32.6	17.2	\$263.25	\$2,632.5	
\$251.00 - 312.50	19.1	10.1	\$338.10	\$3,381.0	

1/ Based on 1972 income inflated to 1975 dollars at 10% for 1972, 10% for 1973 and 15% for 1974.

2/ Source: UN Population Division, "Trends and Prospects in Urban and Rural Population", (New York), April 1975. (Assumes UN medium growth rates).

3/ Assuming UN medium variant growth rates.

4/ 20% of midpoint of column 1 class.

5/ 10 times column 4.

6/ (1,000 less column 5) x (columns 2 + 3). (No negative values are considered.)

The numbers of column 4 give an indication of the low design costs needed to finance the basic need from effective market demand. For example, if minimum housing costs \$2,000, the amount of subsidy required would increase enormously to \$288.6 billion.

#### D. Implementation and Resource Requirements

It is impossible to assess the extent of external commitments allocated to the housing sector. Attempts by the UN to systematically compile data on the amount of external assistance to LDCs ended in failure as definitions of "rural" and "urban" areas could not be agreed upon. Nor was it possible to decide upon or separate out components of the housing sector. For example, questions on what should be included as "infrastructure" or whether rural feeder roads were part of rural development projects, remained largely unanswered.

In any case, international commitments to the housing sector have remained relatively small. The Agency for International Development's Housing Investment Guaranty Program has a statutory limit of \$880 million of which \$660 million had been authorized and over \$380 million in private loans had been disbursed as of June 1974. 1/ The Inter-American Savings and Loan Bank, established in 1974-75 and based in Caracas, received an initial funding of \$100 million from its regional members and will concentrate on expanding and strengthening the Savings and Loan Systems in Latin America. The United Nations Habitat and Human Settlements Foundation received as of late 1975 an initial grant of \$4 million from UNEP, and is in the process of establishing its policies and seeking major sources of funds. 2/

The World Bank is the primary contributor with roughly 40 to 50% of its budget for urban projects going to urban housing (specifically for sites and services and slum upgrading projects), but only a very small amount going to rural housing. Bank policy has not included rural housing development or upgrading as an objective of lending. Allowances have gone instead to settlement projects and housing for staff in rural areas. One estimate on lending for settlements and staff housing has been stated as representing 1% of all agriculture and rural development lending, or approximately 40 million dollars (in 1975 dollars). On the urban side, the sites and services and slum upgrading components of 27 urbanization projects were allocated \$190.4 and \$206.7 million respectively for FY71-77, representing 21% and 23% of the total budget respectively. 3/ This includes water and sewerage facilities as part of infrastructure. During FY75 and FY76 alone, roughly \$101.3 million and \$50.2 million respectively were allocated for sites and services and slum upgrading projects.

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1/ United Nations Environment Programme, "Criteria Governing Multilateral Financing of Housing and Human Settlements, Report of the Secretary General", (Geneva) October 1975, p. 22.

2/ Ibid., p. 22.

3/ Includes on and offsite infrastructure, housing cores and building loans but not community facilities. Dollar costs are net of physical and price contingencies. World Bank Urban Projects Staff "Components or Urbanization Projects and Their Cost, FY1971-1977", May 5, 1977.

In summary, from 1974 to 1976, roughly \$911 million has been either disbursed or allocated for the housing sector. No information is available with respect to where within the LDC group the money has been disbursed, with the exception of the World Bank: out of the nine urban projects in FY75-76 three were in low income countries, two in middle income countries and four were in upper middle countries (incomes based on 1975 dollars). Nonetheless, \$911 million is relatively small considering the investment requirement of approximately \$9.9 billion per annum if housing shortages of the most needy are to be alleviated during the targeted investment period of 1980-2000. However, these investment figures are to indicate a possible range of investment only and are sensitive to small changes in variables and assumptions. Due to the many assumptions that have been made, they are highly inadequate.

V. Health<sup>1/</sup>

Although health conditions in developing countries have improved, the health strategies of individual countries have often been inefficient and inequitable. Public expenditures are often allocated to expensive, modern hospital facilities and to the training of highly skilled medical manpower. The result is an emphasis on curative inpatient care, disproportionately concentrated in urban areas. Thus, medical resources are almost non-existent in rural areas, leaving a large percentage of a country's population without access to adequate health care. In addition, due to the maldistribution and real scarcity of medical resources inefficiently allocated, large numbers of urban poor are left without medical care.

Reforms in health services must aim at improving health service delivery to the poor at the community level. The health strategy proposed for the purpose of this paper is two-fold, but will focus on efficient, low cost preventative care to cover a maximum number of deprived people. Programs for the eradication and treatment of the most prevalent diseases in developing countries will also be included. The control of tropical diseases is not only of considerably public health importance, but is vital for the success of many development schemes. Thus, while demand for curative care will not be ignored, a more economical balance will be struck between measures to treat disease and measures to control its incidence by:

- (a) extending the coverage of the primary health care system;
- (b) increasing the responsiveness of existing health posts and district hospitals to the needs of the primary health worker;
- (c) planning the extension of primary care with the intention of supplementing the role played by traditional village healers.<sup>2/</sup>

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<sup>1/</sup> In his May 1977 speech to the World Health Assembly, the Director-General of WHO estimated that an annual transfer of resources in the neighborhood of \$750 million to developing countries might meet basic human health requirements. See: The Annual Report on the Director-General on the work of WHO in 1976, pp. 12-18.

<sup>2/</sup> Mahler, H., Director-General of the World Health Organization. "Address to the World Health Assembly," 27th World Health Assembly. Geneva: World Health Organization, May 1974.

Health problems in LDCs are enormous. Variations between countries in resource availability and in the incidence and spread of disease reduce the validity as well as feasibility of making global estimates on the cost of providing health care. However, for the indicative purposes of this paper, it is necessary to make some rough estimates. It should be understood that they are based on rudimentary health planning which ignores many problems and makes a number of simplistic assumptions:

- (1) Although the target population to be served is the most impoverished, no account has been made of where this population is located except to distinguish between rural and urban areas. It is assumed that the target population is concentrated in lower income countries, a logical assumption as these countries tend to spend the least per capita on health services. The target population is conservatively assumed to remain at a constant percentage of the total population of developing countries during the investment period (1980-2000).
- (2) Health manpower training costs are based on several simplifications. The proposed health strategy takes no account of attrition rates and the lack of qualified personnel to lead training programs. The training program is assumed to be terminal (no retraining will take place), and is designed only for the training of less expensive, albeit less technically sophisticated medical manpower to provide routine health services. Through redistribution and the release of the limited number of physicians from routine tasks, more effective supervisory coverage may be achieved. The strategy does not include major additions to training school facilities. Training costs include stipends, accommodations (where applicable), technical assistance and special equipment.
- (3) The investment outlay does not include recurrent costs such as supervisory personnel, the restocking of supplies, operation and maintenance of training schools, health facilities and vehicles.
- (4) Costs do not include physical or price contingencies and the cost of referral care; all costs are assumed to remain constant in real terms throughout the investment period.
- (5) The proposed health strategy assumes the existence of basic administrative and communications networks.



- (6) Finally, it should be recognized that the costs involved in the extension of primary health care are almost certainly understated. Both domestic and international funding have traditionally gone to curative care programs, and the proposed health package is limited to the neglected lowest tier of the public health service system. However, as the estimated costs of multilaterally financed health projects at the community level are incremental to what have typically been fairly well developed administrative and referral systems, a massive expansion of primary care would require a significant expansion of these systems. It is outside the scope of this analysis to determine requirements for additional medical centers, medical schools and the like, which would provide the supportive administrative and service elements that an expansion would necessitate.

#### 1. The Target Population

In 1976, the number of absolute poor living in rural areas is estimated to be about 49% of all people living in rural areas or 650 million.<sup>1/</sup> If this percentage remains constant -- a pessimistic assumption -- the number of rural poor may grow to 785.96 million in 1980, 945.7 million in 1990 and reach 1,100 million by AD 2000.<sup>2/</sup>

Although health facilities and manpower are disproportionately available to urban areas (for example, some cities containing 30% of a country's population will have 80% of a country's health resources), it can reasonably be assumed that these services are unavailable to the poorest in urban areas. It may be assumed that persons with poverty incomes are not presently being served. The number of urban people in developing countries living below the poverty level in 1976 is estimated to be at least 181.5 million or 33.2% of the total urban population. In 1980 this number may swell to 226 million, 345 million by 1990 and by 2000, to 498 million.<sup>3/</sup>

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<sup>1/</sup> World Bank Staff "Rural Operations Review and Support Unit," December 10, 1976.

<sup>2/</sup> Based on UN Medium Variant growth rates.

<sup>3/</sup> Population figures for 1980, 1990 and 2000 are based on UN Medium variants. Population projections will be significantly larger for those years than in 1976 as more countries are included in the population estimates.

## 2. The Health Strategy

### a. Primary Health Care Services

The strategy and cost of delivering basic health services to the poor have been derived from World Bank project experience in thirteen developing countries.<sup>1/</sup>

Health facilities would be of two types:<sup>2/</sup> The type I health post would be designed for sparsely populated rural areas and would accommodate 8,000-12,000 people, or the population located in a 10 km radius around the center, whichever is greater. The type I facility would serve as a base of operations for the community health worker (CHW), who would reside in the community he/she serves. The CHW would work in teams of 2 (1 male/1 female), and would be minimally trained. The CHW would possess the fundamental skills of record keeping, family planning, maternal and child care, delivery, inoculation and treatment of simple health problems, and provision of basic education in sanitation and nutrition. Complicated cases would be referred to a health center or district hospital. The training time would require from 8 to 24 weeks depending on the travel distance involved, and the degree of the training. The ratio of CHWs to the population would be one team to 4,000 persons (or one CHW to 2,000 persons).

The type I health post would be staffed by 2 or 3 auxiliary-nurse-midwives (ANM) depending on the population size, to maintain a ratio of one ANM to 4,000 people.<sup>3/</sup> The ANM would perform simple diagnostic treatment

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<sup>1/</sup> The countries include: Mexico, Brazil, Colombia, the Dominican Republic, Jamaica, Bangladesh, India, Indonesia, Malaysia, the Philippines, Kenya, Tanzania and Tunisia. Project dates range from 1972-1976.

<sup>2/</sup> The size, design and appropriateness of the health facility is based on the size of the population to be served. Coverage ratios of health facilities and personnel to population were determined by reviewing various health programs in operation in nine developing countries. For example, Bangladesh is on one end of the spectrum with a target coverage of one health post per 60,000 people, while Jamaica is on the other with a target coverage of one health post per 4,000 people. Type I facilities are based on World Bank population and urban projects in the Philippines, India, the Dominican Republic and Jamaica; type II on projects in Bangladesh, Philippines, and Indonesia.

<sup>3/</sup> World Bank experience indicates that one ANM can effectively serve up to 3,000 people. (World Bank Population Projects Department, "Appraisal Report of a Population Project in India," May 15, 1972). However, to realistically account for the resource constraints in the poorest nations, the target ratio of 1 to 4,000 is considered for indicative purposes to be adequate.

and midwifery services, would dispense contraceptive devices, give pre- and postnatal care, and act as a supervisor for the CHW. The ANM may receive from 18 to 24 months of training in addition to at least primary school education. At least one assistant, in addition to students (medical, paramedical, or auxiliary) who are undergoing in-service field training at the health post would be available to the ANM. A roving primary-care managerial-type physician or medical officer would be responsible for supervising the operations of the health post.

The type I post would be from 200 M<sup>2</sup> to 500 M<sup>2</sup> in size and supplied with one 4-wheel drive vehicle.

The type II health post, designed for densely populated areas would provide health services for up to 15,000 to 50,000 persons. Each post would have 2 to 8 "satellite" units (depending on the size of the population) located in a specified km radius around it. Those units are make-shift, and would be staffed by one ANM. Each type II post would have 4 to 12 ANMs, 2 to 4 located at the post itself, and 2 to 8 operating from the satellite units. CHW teams equaling 3 to 12 in number would report to the satellite units, but would be under the direct responsibility of the health post. Each type II post would have a maintenance staff and students receiving in-service field training. The facility would be supervised by roving medical officers. Given this type of staffing arrangement, the ratio of ANMs and CHWs to the population would be approximately 1 to 4,000 and 1 to 2,000 respectively.

Because of the larger size of the population to be served, the size of the type II post itself would be larger -- from 500 M<sup>2</sup> to 1,000 M<sup>2</sup>. Depending on the size of the population to be served, type II health posts would have 1 to 3 two-wheel drive vehicles at their disposal.

#### b. Costs of Providing Health Services

##### (i) Costs Per Unit and Per Capita

Three types of costs are involved: capital, training and recurrent expenditures.

Capital costs<sup>1/</sup> include construction, professional fees, furniture, acquisition of equipment and initial inventories of supplies and drugs.

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<sup>1/</sup> Capital costs are based on the average costs of 7 types of health facilities in 6 World Bank projects: Bangladesh, Philippines, Indonesia, India, Dominican Republic, Jamaica.

The type I health post would cost \$36,000 (in 1975 prices) or \$4.50 to \$3.00 per capita. Including a 4-wheel drive vehicle that costs \$10,000 (in 1975 prices) would bring the total cost to \$46,000 or \$5.75 to \$3.83 per capita. The type II health post would cost \$71,000 (in 1975 prices) or \$4.73 to \$1.42 per capita. Including 1 to 3 standard automobiles at \$5,000 a vehicle, would bring total cost up to \$76,000 to \$86,000 or \$5.06 to \$1.72 per capita.

Training costs include the training of CHWs and ANMs.<sup>1/</sup> The average cost of training a CHW is \$6.71 per week (in 1975 prices) or \$53.68 to \$161.00 per person depending on the length of the training period (8 to 24 weeks respectively). The average cost of a 24-month training program for an ANM is \$877 (1975 prices) or \$36.54 per month. If the training period could be reduced to 18 months without sacrificing the quality of education, the cost may be reduced to \$658 (1975 prices) per person. Per capita costs of ANM training at \$658 to \$877 would be \$0.16 to \$0.22 respectively. Per capita costs for CHW training would equal \$0.03 to \$0.08.

Recurrent costs include the salaries of health personnel, the operation and maintenance of health facilities, and the restocking of inventory supplies. These costs are important, but are separate from the investment requirement.

(ii) Investment and Manpower Requirements

Providing the poorest with the health services specified above would require:<sup>2/</sup>

Type I (8,000-12,000 persons): 137,500 - 91,667 facilities  
Type II (15,000-50,000 persons): 33,200 - 9,960 facilities  
CHWS (at 1:2000): 550,000 (in rural areas); 249,000 (in urban areas)  
ANMS (at 1:4000): 275,000 (in rural areas); 124,000 (in urban areas)

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<sup>1/</sup> Based on average training costs obtained from 5 World Bank projects in Jamaica, Bangladesh, Dominican Republic, India and Philippines.

<sup>2/</sup> Population to be served as of 2000: 1,100 million (rural) 498 million (urban).

The investment requirement for implementation would involve:

(8,000-12,000 persons) Type I: at a unit cost of \$46,000  
(1975 prices - including vehicle)  
\$4.2 billion - \$6.3 billion

(15,000-50,000 persons) Type II: at a unit cost of \$76,000-\$86,000  
(1975 prices - including vehicle)  
\$856.6 million - \$2.5 billion

The training costs would be:

CHWS: at 8 wks. \$29.5 million (rural); \$13.4 million (urban)  
at 24 wks. \$88.5 million (rural); \$40 million (urban)

ANMS: at 18 months \$180.9 million (rural); \$81.6 million (urban)  
at 24 months \$241 million (rural); \$109 million (urban)

In total, a plausible range of investment may be \$5.4 to \$9.3 billion (in 1975 prices).

Per annum investment from 1980-2000 would equal \$270 to \$465 million.

If only the poorest in the lowest income countries were to be served, the target population in 2000 would be 763.36 million in rural areas and 284.8 million in urban.<sup>1/</sup> The investment requirement for this group would be as follows:

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<sup>1/</sup> Based on 1976 population estimates, Source: World Bank, "Rural Operations Review and Support Unit," Agriculture and Rural Development Department, CPS 12/10/76; and World Bank, Urban Poverty Program Indicators, 4/13/77. Rural poor in lowest income countries totals 454.7 million or 34% of all persons living in rural areas in 1976 (1,320 million); urban poor totals 106.1 million or 19% of all persons living in urban areas. These are low estimates as population information on Madagascar, Comoro Islands, Guinea, Lesotho, Khmer Republic, Laos, Vietnam, and Uganda was not available. Assuming that during the investment period the numbers of rural and urban poor in the lowest income countries (those with per capita income less than \$245 in 1975 prices) remain a constant percentage of all rural and urban inhabitants in the LDCs, then the numbers of absolute rural and urban poor living in the lowest income countries will equal 1,048.16 million by the year 2000 (34% of 2,245 million and 19% of 1,499 respectively).

Type I health posts: 95,412 to 63,608 required @ \$46,000 (1975 prices) = \$2.9 to \$4.4 billion (8,000 - 12,000 persons).

Type II health posts: 18,987 to 5,696 @ \$76,000 - \$86,000 = \$490 million to \$1.4 billion (15,000 to 50,000 persons).

CHWs = 524 thousand required @ \$56.68 - \$161 per person = \$29.7 million to \$84 million.

ANMs = 262 thousand required @ \$658 - \$877 per person = \$172 million to \$230 million.

Total investment required equals \$3.6 to \$6.1, or \$180 million to 300 million per annum.

### c. Tropical Disease Control

The debilitating effects of the six major diseases affecting the developing world's population today have cost untold millions of dollars in wasted manpower and material resources. The control of tropical diseases is not only of considerable public health importance, but is vital to the success of many development schemes. Although enormous constraints make the initiation and implementation of a large scale eradication program nearly impossible, for indicative purposes the costs of tropical disease control will be crudely estimated. These costs will understate the true magnitude of the task involved as important constraints such as population movements, inadequate personnel and health service infrastructure, rising costs of drugs, insecticides, larvicides and motor vehicle operations, temporary inaccessibility of large population groups (due to climatic and topographical factors), and limited technical knowledge of vector control and chemotherapy are not carefully considered. However, one mitigating factor may be the supportive elements of the basic needs program itself that can serve to break the synergism between poor diet, disease and unhealthy environmental conditions. Providing core needs such as safe drinking water and sewerage facilities, proper nutrition, education and health services will help control the devastating effects of these deadly diseases and possibly reduce the cost of large scale eradication programs.

For the indicative purposes of this paper, the costs of eradicating only the four most prevalent diseases will be considered: malaria, filariasis (onchocerciasis), trypanosomiasis and schistosomiasis. Many cases go unreported as estimates of prevalence, often based on crude measurement techniques, usually grossly underestimate the true frequency of infection.

Furthermore, in many endemic areas, the lack of prevalence estimates usually means the absence of surveys and not the absence of infection. Thus, the following estimates of population either at risk or infected by disease are intended to serve as orders of magnitude only: schistosomiasis 180-200 million, onchocerciasis 30 million, trypanosomiasis 35 million, and malaria 2,015 million.<sup>1/</sup> Prevalence data on malaria are more complete. Out of 2,015 million living in areas where malaria has been or is still endemic, some 1,626 million live in areas where either malaria has been eradicated (824 million) or control programs are in progress (848 million), and some 343 million live in endemic areas not yet projected.<sup>2/</sup>

The WHO has suggested that the cost of intensive malaria control measures is roughly between one-seventh and one-fifteenth of the economic cost of the disease. In an area of widespread agricultural activity in Africa, it was estimated that the cost of effective systematic mass protection would not exceed \$2 per capita (1976 dollars) annually versus the equivalent of \$8 per capita (1976 dollars) spent on individual anti-malaria treatments alone.<sup>3/</sup> Given that malaria eradication is based on the complete interruption of malaria transmission for three to four years with a period of internal surveillance thereafter to insure against a re-emergence of the disease, a twenty year program would cost \$12.4 billion (deflated to 1975 dollars<sup>4/</sup>) with recurrent costs running around \$19.5 billion (deflated to 1975 dollars). The capital costs were based on the assumption that (1) a ten year implementation period would be sufficient for those untreated (343 million) at \$1.8 per capita (1975 dollars), and (2) a five year implementation period (at a cost of \$1.4 per capita) would be enough for persons living in areas with programs already in progress (848 million).<sup>5/</sup> With regard to recurrent costs, past experience has demonstrated that the suspension of surveillance and control efforts in

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1/ WHO, Special Program for Research and Training In Tropical Diseases, 1976, schistosomiasis 76.7, p. 4; onchocerciasis 76.10, p. 3; trypanosomiasis 76.12, p. 4; malaria 76.6, p. 3.

2/ Ibid., 76.6, p. 3.

3/ Ibid., 76.6, p. 8.

4/ Deflator based on the index of consumer prices in developing countries where 1970=100. The World Bank, World Economic Indicators, May-June 1977, P. 10.

5/ It is assumed that it would be more expensive and take twice as long for untreated areas to develop needed infrastructure and train personnel.

endemic areas has led to an upsurge in malaria; hence the need for a continuous operation until the disease has been completely eradicated. The cost of surveillance activity could equal roughly one-third that of an active campaign or \$.60 per capita (1975 dollars). From 1980 to 1985, 824 million people will be under surveillance at an annual cost of \$494.4 million (1975 dollars). In 1985, this population will increase to 1,672 million and finally reach 2,015 million by 1990. Per annum costs during 1985-1990 and 1990-2000 equal \$1 billion and \$1.2 billion respectively.

A 20 year operation to control onchocerciasis in the Volta River Basin is currently being conducted under the auspices of several organizations of the United Nations. The project spans seven countries, covers 10 million inhabitants and costs in 1973 dollars \$120 million (\$80 million and \$40 million for capital and recurrent costs respectively).<sup>1/</sup> Inflated to 1975 dollars, per capita costs of the project are \$12 for capital expenditures and \$6 for recurrent cost outlays. If this project were to be enlarged to cover the estimated 30 million people suffering from the disease, the investment requirement needed might be \$360 million, with an additional \$180 million for recurrent costs. Although these expenditures include funding for chemotherapy research and vector control operations, entomological surveillance remain the most effective means of combating onchocerciasis as existing drugs are unable to completely kill the parasite. A combination of vector control and mass chemotherapy could reduce the length of the program.

Efforts to control trypanosomiasis are costly, cumbersome and do not eliminate the disease, but merely suppress it. Chemotherapy programs that effectively detect and treat the disease are at present a remote possibility, and therefore only habitat destruction and insecticides can be considered for the prevention of epidemics through vector control. For indicative purposes, very crude estimates can be made of the cost of a tse-tse fly eradication program until research activities (currently totalling \$13 million a year) result in a more efficient and effective drug for treatment.

At present, 10 million people at risk are examined annually by mobile teams at a recurrent cost of \$5 million (1976 prices). The WHO has estimated that expenditure for control of the tse-tse fly is at least ten times higher, although this figure is somewhat misleading as most efforts are directed towards control related to animal disease. For

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<sup>1/</sup> WHO, UNDP, FAO, IBRD, Onchocerciasis Control in the Volta River Basin Area, (Geneva), 1973, pp. iii-v.



want of better estimates, per capita costs (deflated to 1975 prices) of fly control and surveillance programs are assumed to be \$4.60 and \$.46 respectively. Expanding these operations to cover the 35 million persons at risk by the disease may cost \$161 million per annum for vector control and \$16.1 million per annum to institute an ongoing network of surveillance. Arbitrarily assuming a 20 year implementation period means an investment requirement of \$3.2 billion with an additional \$322 million in recurrent costs. The inclusion of an effective chemotherapy campaign might shorten the length of the project.

To control schistosomiasis, one international expert has suggested that an investment of \$6 billion (1975 dollars) over 20 years would be required: \$2 billion for Brazil, \$2 billion for Egypt and \$2 billion for the rest of the world.<sup>1/</sup> Based on schistosomiasis project experience in five developing countries,<sup>2/</sup> the shares of capital and recurrent costs can be roughly estimated to represent 62% and 38% of the total or \$3.7 billion and \$2.3 billion respectively.

In summary, an investment outlay that might be required to eliminate four of the most prevalent and deadly diseases in the developing world is approximately \$19.7 billion (1975 dollars) with an additional \$22.3 billion (1975 prices) in recurrent costs over a 20 year period. Per annum expenditures over the twenty year time frame envisaged for the campaign equal \$985 million and \$1.1 billion (1975 prices) for capital and recurrent costs respectively.

### 3. International Allocations to Basic Health Projects

Specific information regarding international assistance flows to the health sector is limited. However, it can readily be ascertained that a large percentage of resources still goes towards the funding of expensive curative care facilities, research, mass eradication campaigns and other projects of a curative nature. Integrated basic health programs at the community level have not been in the forefront of activity. One rough estimate of DAC bilateral assistance to basic health has been cited at \$200 million.<sup>3/</sup> Multilateral assistance agencies such as the UNEP, WHO, PAHO, UNFPA and IARC have appropriated roughly \$85 million for basic health services.<sup>4/</sup> Funding for research into the control of tropical diseases under

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<sup>1/</sup> World Bank Staff Memorandum, "Review of Draft Paper 'Basic Needs Global Estimates'," OEHA, July 12, 1977.

<sup>2/</sup> Iran, Brazil, Egypt, Puerto Rico, St. Lucia.

<sup>3/</sup> World Bank Staff Memorandum, op. cit.

<sup>4/</sup> Ibid.

the auspices of the WHO are expected to reach \$200-\$300 million in total over the next two decades.<sup>1/</sup>

Data regarding World Bank/IDA lending for health and projects with health components are very sketchy. In general, health components have represented only a small proportion of total project costs, with the exception of population projects which usually contain a large component. Very crude figures for Bank allocations in the health sector have been drawn up for FY76, and are used here for indicative purposes only.<sup>2/</sup> World Bank loans and credits for projects with health components total \$71 million (1975 prices) or \$38.5 and \$32.5 million respectively.

Although domestic and international assistance allocations have traditionally flowed to curative rather than primary health care, the investment requirement for the extension of basic health services would be an addition to, rather than a reallocation of existing funds. Furthermore the basic needs approach relies on the supportive administrative and service elements that a commensurate expansion of curative care facilities would provide.

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<sup>1/</sup> WHO, Special Program for Research and Training in Tropical Diseases, op. cit.

<sup>2/</sup> World Bank Staff, Office of Environment and Health Affairs, 1976.

## VI. Education

### 1. Target Population

During the past two decades the proportion of adult illiterates and out-of-school children in the developing world has fallen, although their numbers have increased in absolute terms. The estimated overall illiteracy ratio for the developing countries fell from 59% in 1960 to 50% in 1970. The ratio of out-of-school children to the total school-age population (ages 5-14) fell from roughly 56% in 1970 to a projected 52.7% in 1975.

These figures mask the wide disparity in individual literacy ratios within the Third world. World Bank calculations indicate a range of 5% to 89% literacy among adult populations in LDCs. And in absolute terms the number of people lacking the fundamental literacy and numeracy skills is growing rapidly. This is a reflection of the fact that the systems of education in most developing countries inefficiently use resources and consequently often do not achieve their quantitative and qualitative objectives. For example, school systems are frequently managed without proper attention to the effective utilization and supervision of teachers. Secondly, the hierarchical structure of most formal primary education systems that is both chronologically-graded and age-specific operates with rigid entrance and exit levels. Those who fail to enter the educational system at a specific time often lose forever the chance to enter at all; those who leave the exit level without proper certificates are branded as failures. Thirdly, inadequate curricula and learning methods compound serious problems in the production, distribution and utilization of learning materials and equipment. And finally, malnutrition and related illnesses affect student performance by reducing his motivation and ability to concentrate and learn. These inefficiencies are first apparent in the low performance of the school system, and in the high dropout and repeater rates.

The definition of a target population for a basic education strategy must account for the large segment of the adult population which is illiterate, for the school-age children who will be entering adulthood without minimal exposure to education, as well as the projected numbers of school-age children who would not receive a minimum level of education if the growth in existing capacities were to continue at its present rate. This latter target group has been identified by subtracting from the projected school-age population through the year 2000 the number of children who will be enrolled in school if the current rate of growth in enrollments (10 million per year) continues throughout the century. The balance, projected numbers of school-age children out-of-school, is 294 million in 1980, 424 million in 1990, and 519 million in 2000. Assuming a 4-year cycle of primary education for this group (as against a norm of 6 years) only 4/10 of this group would be in a formal school program in order to receive the 4 years of primary education considered a minimum for developing permanent literacy skills. This proportion of the group could be ages 5-8 or 6-9 or 7-10, etc., and would represent a target population in the school-age group of approximately 118 million in 1980, 170 million in 1990 and 208 million in 2000. For this group it is very simplistically assumed that the proportions of repeaters and dropouts are both equal to 10% and therefore cancel out each other's effects on the school-age target group. Of course, dropouts must be added to the adult target group. However, over the 20-year period, it is hoped that an improved internal efficiency and student flow

of the educational system will reduce the dropout rate which will certainly reduce any carry-over of the population into the adult group. Only by cutting off the flow of illiterates or semi-illiterates originating from the primary age group, can it be realistically hoped that the universality of basic education will be achieved.

Estimates of adult illiterates in LDCs indicate a current level of approximately 800 million, rising to 830-850 million in 1980. To this group is added the number of children and youths who will have reached the age of 15 or above without access to a primary education, during the 1980-2000 period, i.e. roughly 350-450 million. In addition, school dropouts expected to become adult illiterates are conservatively estimated at roughly 200 million (assuming a 10% dropout rate in the children entering school each year during 1980-2000). <sup>1/</sup> The total estimated target population of illiterate adults and over-school-age youths ranges between 1400 and 1500 million for the 1980-2000 period.

## 2. Outlining a Strategy

### a) Primary Schooling

The basic education strategy accords higher priority to universal coverage than to depth of education, since its principal aim is to provide the basic literacy and numeracy skills essential for productive life. A four-year cycle is considered adequate to develop essential basic skills on a permanent basis, and is preferred over the norm of a six-year cycle for reasons of economy. It is assumed that, whereas the four-year cycle may not provide the target group with adequate preparation for secondary school, it is at least as equitable to provide this group with some portion of the education received by those already served. However, to avoid charges of discrimination, efforts would have to be made in a four-year program to keep standards of service comparable to regular programs. It should be stressed that the proposed four-year basic needs strategy will be complementary to the regular six-year primary schooling with built-in possibilities of appropriate crossover. The curriculum should also correspond to the regular program. Moreover, in order to avoid "dualism" within the primary level, the strategy could be defined as a "nuclear structure" which would be gradually extended to the duration of the regular program (6, 7 or 8 years) as resources permit.

A word of caution, even though the basic needs education strategy is an attempt to reduce the effects on socio-economic inequality, the mode of delivery may in fact reinforce inequality, instead of reducing it. The self-defeating nature of the strategy can be offset by making critical choices on the method of determining access, mode of distributing opportunities and the degree of intensity of reaching the target groups.

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	<u>Millions</u>	
<u>1/</u>	<u>Basic Ed.</u>	<u>Non-Basic Ed.</u>
a) Average number enrolled in school during 1980-2000 school:	163	400
b) Number of classes:	4	8
c) Average number of entrants per year ( $a \div b$ ):	41	50
d) Number of drop-outs per entering class:	4.1	5
e) Number of drop-outs during 1980-2000:	82	100
Sum Total:		182

The lack of access to primary schooling is predominantly a rural phenomenon. It may result as often from a low school-to-geographical area ratio as from a low school-to-population ratio, due to the very low population density prevailing in some areas. The basic needs strategy must take such geographical conditions as low population density into account in order to provide realistic access. In some areas primary schools would be quite small and would serve only one shift of school children. Other, more crowded areas, might accommodate a larger, double-shift system. For the purposes of roughly estimating the global needs, a double-shift is assumed for only one-third of all school children enrolled in the program. The ratio of school places required to population served is therefore 5:6.

The physical construction requirements for primary schools are not considered in great detail. It is assumed that these schools will have a durability of at least 20 years, and that physical construction will represent the bulk of the capital requirements (i.e. machinery and heavy equipment requirements would be modest). Essential teaching supplies would be provided initially and replaced on a regular basis.

b) Non-Formal Basic Education for Youths and Adults

A program for illiterate youths and adults should serve the two functions of developing literacy and instructing in techniques to develop skills necessary for use in daily activities. The duration of enrollment would depend on local demand, conditions and the nature of the practical instruction provided. In general, it is assumed that the basic education needs of adults and youths will be comprised of three major components:

- (a) Civil Functions: literacy, numeracy and citizenship
- (b) Living Skills: health, sanitation, family life, etc.
- (c) Production Skills: In areas of agriculture, industry and services.

Training for adults in production skills (c) will, to a large extent, take place in situ -- in the field and on the job as a planned training component of the other economic sectors comprising the basic needs program. Likewise, much of living skills (b) will take place in situ and it too overlaps with other elements of the basic needs approach. Nonetheless, as more formalized instruction is involved, it is estimated that 200 hours of instruction will be required of which at least 100 hours might be provided by mass media. An additional 300 hours will be required for civil functions (a).

Since a large percentage of adult functional training and education will take place in existing facilities - community centers, health posts, primary schools during off hours - and/or on the job, through the mass media, etc., relatively little fixed construction would need to be built. It is assumed that 80% of the target group could be accommodated in the existing facilities for the literacy and numeracy program and 60% for the living skills. Therefore, new facilities will be required for 1/5 of the target group for civil functions and 2/5 for living skills. It is recognized that some of the facilities created for civil functions can also be used for living skills, but the actual use-factor for the facilities cannot be

determined, due to uncertainties on timing and sequence of erecting such facilities, duration of the classes each day, and timing of such classes. However, for computing purposes, it is assumed that with respect to living skills, 20% of the target group for each year will use the facilities created for the civil functions and the remaining 80% will require additional facilities. This would be used in 3 shifts of one hour each. For an estimated target population of 1400 million, the total requirement of places is therefore 19 million, of which 14 million is for literacy, numeracy and citizenship, and 5 million for living skills.

c) Teacher Requirements and Training

In any principal move for educational expansion or quality improvement, the issue of teachers' acceptance and innovativeness becomes an overriding concern, and appropriate preparation of teachers must be given proper attention. An average pupil-to-teacher ratio of 50 to 1 is assumed for the primary school level, and 25 to 1 for adult education programs (where applicable).

The supply of secondary school graduates is assumed to be adequate to insure sufficient numbers of teacher trainees. For the primary school level the training period will last 1 man year, of which the first 6 months will be spent receiving formal classroom training. The remaining 6 months are of an in-service, follow-up nature designed to keep teachers up-to-date on technological and/or societal changes. As this can be done on a large scale through the use of mass media, the bulk of training costs will go towards the initial 6 months of technical and pedagogical training. For indicative purposes it is assumed that the existing stock of training centers and teacher trainers is adequate. As residential facilities will not be supplied to the trainee, it is assumed that the prospect of employment is enough incentive to enroll in, and stay with the training program.

Teachers of civil functions in adult educational programs will be literate members of the community hired on a full or part-time basis, and will receive 2 months of specialized training. Where necessary, primary teachers will supplement the ranks - after receiving the additional 2 months of specialized training. Teachers of living skills will be staff of services such as health, sanitation, family planning, etc., who may be hired part-time to work where needed in adult education programs that are more strictly conceived. It is assumed that skills for this type of instruction are acquired from prior practical experience and/or job-related training.

d) Capital Costs

The costs for the strategy have been defined in terms of costs per student place, rather than cost per school building or classroom size. This method has the advantage of relying more heavily on the range of project experience in the field (rather than on any one particular model project) since world Bank education project comparative cost evaluation work, for example, is defined in terms of costs per student place. <sup>1/</sup> In the cases of both primary school and adult education places, costs were determined by selecting from the low end of

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<sup>1/</sup> See EDP, "Unit Area and Unit Cost Estimates in Education Projects", 1976.

the cost range for Bank primary and adult education projects.

For the primary school level, a total cost of \$250 (in 1975 prices) has been chosen, representing a cost per place above that of one-third of the Bank's projects, i.e. falling just above the seventh decile level. Between 80% and 90% of the total cost would be for construction; furniture and equipment would account for the remaining \$25 to \$50 per place.

Since the adult education program is conducted to a large extent in situ and relies on existing facilities and equipment, little additional construction is required. On the basis of this reasoning the low point on the capital cost range for adult education has been chosen as an indicative figure only. The total cost per place would be \$350 (1975 prices). Investment costs for mass media related instruction are estimated at 10% of the capital cost, or approximately \$35 per place.

### 3. Implementation and Total Resource Requirements

The implementation patterns and investment streams vary among the different components of the proposed strategy. In the case of primary school-age students the number of places provided would need to increase an additional 173 million over the 1980-2000 period to account for the added enrollment of 208 million students by the year 2000. The estimated total investment cost for these places over the 1980-2000 time frame, at \$250 per place, would be \$43.25 billion (1975 prices). Assuming an implementation schedule of 58 million places established by 1985 (33% of the total), an additional 87 million places by 1995 (50% of the total), and then another 28 million by 2000 (16% of the total), per annum investment costs would be, roughly, \$2.9 billion from 1980-85, \$2.2 billion from 1985-95, and \$1.4 billion from 1995-2000.

Capital costs for the adult target group of 19 million places at \$350 per place would equal \$6.65 billion (1975 prices). The investment requirement for living skills provided by mass media are roughly estimated at 10% of the capital cost or \$660 million. Total capital costs equal \$7.31 billion (1975 prices). Assuming that all capital costs would be incurred between 1980-85, the average annual cost may equal \$1.46 billion.

The total of the estimated investment requirement for the adult and school-age target groups equals \$50.56 billion (1975 prices). Per annum investment costs would equal approximately \$4.4 billion from 1980-85, \$2.2 billion from 1985-90 and \$1.4 billion from 1995-2000.

In the case of education, the ratio of recurrent expenditure requirements to the investment outlay is high relative to water supply, for example, largely as a result of teacher salaries which make up the bulk of recurrent costs. In order to have some indication of the financial burden involved in a basic education strategy, it is important to have some estimate, however rough, of the recurrent costs of the program.

A range of 15%-25% is generally accepted as representing the ratio of the annual average recurrent costs to the total investment outlay. The

method used here is to calculate teacher salary requirements of primary, adult and teacher education programs, add the costs of (1) learning materials and (2) administration and management (at an assumed 7 and 3% of the teacher salary requirement respectively), and then check the result against the suggested recurrent cost ratio.

An average teacher salary has been derived from a comparison of teacher salaries in relation to GNP per capita in various regions.

1/

Average Primary School Teacher Salaries, 1975 US Dollars  
(Average salary/GNP per capita x GNP per capita)

Africa	\$2291
Central America	2806
South America	2667
Asia (excluding Taiwan, Oman and Iran)	1797

Because the strategy would be weighted towards Asia and Africa for instruction averaging 900 hours annually, an average teacher salary of \$2100 has been chosen, arbitrarily from the above range. Although primary teachers who undergo additional training in order to teach adults should receive a higher salary to generate incentive, for simplicity it is assumed that both primary teachers and adult literacy instructors will receive the same salary. A slightly higher salary of \$2170 has been chosen, again arbitrarily, for the teacher of living skills as it has been estimated that unconventional teachers have higher income levels.

Based on the above assumptions, recurrent costs for the school age target group are estimated as follows:

(a) teacher salary: $1/50 \times \$2100$	= \$ 42.00
(b) learning materials (7% of (a))	= 2.94
(c) Management Administration (3% of (a))	= 1.26
(d) Total per student place	= <u>\$ 46.20</u>

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1/ Derived from EPD "Comparative Education Indicators", May 11, 1977.



(e) Estimated incremental recurrent costs  
at assumed enrollment levels (1980-2000)

	Billions (1975 dollars)	
	Total	Annual Average
58 million (1980-85)	\$13.4	\$2.7
145 million (1985-95)	\$67.0	\$6.7
173 million (1995-2000)	\$40.0	\$8.0
(f) Total estimated recurrent costs	= \$120.4 billion	
(g) Average annual recurrent cost (between 1980-2000)	= \$ 6.0 billion	

with regard to adult education, it is assumed that civil functions will account for 1/3 of a teacher's time and salary (300 hours), while the living skills will account for 1/9 of a teacher's time, but 1/7 of the salary, due to the estimated higher income of the non-conventional teachers compared to primary teachers. The cost of mass media instruction is estimated to be about 50% of the conventional instructional cost. For a target population of roughly 1400 million, recurrent costs in 1975 prices are estimated to be as follows:

(a) Literacy	: $1/3 \times 1/25 = 1/75$ of \$2100	= \$28.00
(b) Living Skills:	$1/7 \times 1/25 = 1/175$ of \$2100	= \$12.00
(c) Living Skills:	50% of (b) (mass media)	= \$ 6.00
(d) Sub-total		= <u>\$46.00</u>
(e) Learning Materials:	7% of (d)	= \$ 3.22
(f) Management and Administration:	3% of (d)	= \$ 1.38
(g) Total per adult		= <u>\$50.60</u>
(h) Estimated cost for 1400 million adults at \$50.60 each (1975 prices)		= \$70.8 billion
(i) Average annual recurring cost between 1980 to 2000 (1975 prices)		= \$ 3.5 billion

The recurring costs of training teachers are calculated along the same lines. It is assumed that the salary of a teacher educator will be twice that of the primary teacher, or \$4200 for an average annual instruction time of 900 hours. As stated above, for primary teachers 6 man months of training (750 hours) will take place in the classroom. Accordingly, this will account

for 5/6 of the educator's time. Assuming a teacher-student ratio of 1:25, recurrent costs are estimated to be:

(a) Salary: $5/6 \times 1/25 = 1/30$ of \$4200	= \$140.00
(b) Skills acquired through the mass media (50% of (a))	= <u>70.00</u>
(c) Sub-total	= \$210.00
(d) Learning materials (7% of (c))	= \$ 14.70
(e) Management and Administration (3% of (c))	= <u>6.30</u>
Total per trainee	= \$231.00

Primary teacher requirements over the 20-year period are estimated to be 1.16 million by 1985, 2.9 million by 1995 and 3.46 million by the year 2000. The total cost of training primary teachers equals \$799.3 million (1975 prices), or \$53.59 million per annum from 1980-85, \$40.19 million per annum from 1985-95, and \$25.87 million per annum from 1995-2000.

The costs of training community members and primary teachers who will be involved in literacy and numeracy programs for adults are based on a teacher-student ratio of 1:25. Two months of training (250 hours) will require roughly 1/3 of the teacher educator's time and salary. If 56 million teachers are required for a target population of 1400, the recurrent costs involved will equal:

(a) $1/3 \times 1/25 = 1/75$ of \$4200	= \$56.00
(b) Learning materials (7% of (a))	= \$ 3.92
(c) Management and Administration (3% of (a))	= <u>1.68</u>
(d) Total per trainee	= \$61.60
(e) Estimated cost for 56 million trainees	= \$ 3.5 billion
(f) Per annum expenditure (1980-2000)	= \$175 million

Total training costs for teachers of primary school and adult education programs equal \$4.36 billion (1975 dollars).

In sum, the recurrent costs associated with the basic needs education strategy total \$195.5 billion (1975 dollars). The annual recurrent costs ranging over the 20-year period average around \$9.8 billion or 19.4% of the investment outlay of \$50.56 billion. This is well within the plausible range of 15-25% that is generally accepted as representing the ratio of annual average recurrent costs to the total investment requirement.

The reader is once again reminded that this exercise is strictly designed to yield an estimate intended only to indicate whether such a strategy is within the realm of financial possibility; it ignores the political, social,

and cultural complexities and barriers which would be involved. Neither the project description nor the cost estimates should be considered as directly applicable to an individual target area. The degree of realism that can be attached to the estimates rests heavily on the generality of the underlying assumptions.

## VII. Recurrent Costs

The recurrent costs (for such items as operation, maintenance, salaries, and regular replacement of supplies) of the basic needs strategies have been derived by estimating ratios of the annual average recurrent costs to the total investment requirements and then applying the ratios to those investment costs.

The recurrent/investment cost ratio for food production is drawn from calculations by FAO in preparation of the indicative World Plan for Agricultural Development. Based on data from 64 developing countries, FAO's calculation of total financial requirements for the plan uses, for crop production, an annual average recurrent cost equal to 20.8% of the total investment requirement. Recurrent costs in foodgrain production would include outlays for seed, fertilizer, machinery maintenance, irrigation, etc. Considering the rise in costs of fertilizer since 1970, the 20% ratio does not appear unrealistic, even for a basic needs approach. Consultation with specialists at the International Food Policy Research Institute has confirmed the 20% ratio as a reasonable rough estimate.

For the water and sewerage strategy recurrent costs have been derived on the basis of a sampling of recent and current water supply projects financed by the World Bank. Projects in Egypt, Indonesia, Kenya, Sri Lanka, Syria, Tanzania and Tunisia yield a ratio of annual average recurrent costs to total investment costs ranging from 1.0% to 6.0%, and averaging 3.0%. The average ratio of 3.0% has been adopted as a reasonable rough estimate, considering the low operating cost anticipated for both water and supply and sewerage facilities assuming a low rate of replacement for installations.

The recurrent costs calculated for housing include outlays for administration, maintenance of housing and infrastructure maintenance (for the types of infrastructure included in the sites and services matrix, of which the principal element is roads). Very rough estimates for these components were derived, in consultation with urban projects specialists at the World Bank, as follows.

Ratio of annual average recurrent costs to total investment costs:

Administration	.5%
Maintenance of Housing	2.5% - 5.0%
Infrastructure Maintenance	1.5% - 4.5%
<u>Total</u>	<u>4.5%</u> - <u>10.0%</u>

For the health care strategy, recurrent cost ratios were calculated separately for the primary health care and the tropical disease eradication programs. Estimated costs for five population projects (in Bangladesh, India, Kenya, Malaysia and the Philippines) yielded a range of annual recurrent/total investment cost ratios of 5.7% - 21.7%, averaging 10%. The disease eradication operating costs were derived by calculating separate ratios for each of the

four principal diseases, based on field studies conducted by WHO and by a UN agency team. These ratios (annual average recurrent costs: total investment costs) are as follows:

Malaria	7.9%
Onchocerciasis	2.5%
Trypanosomiasis	.5%
Schistosomiasis	3.1%
<u>Total</u>	<u>5.7%</u>

Combining the two ratios yields a ratio for the entire health strategy of 6.6% - 7.0%. (A range results from the fact that the primary health care recurrent cost ratio is applied to both a low and a high estimate of investment costs).

In the education strategy, larger recurrent costs have been anticipated, particularly as a result of the outlays required for teacher salaries connected with teacher training, primary school and adult education programs. A range between 15% and 25% has been assumed, based on rough estimates by World Bank education specialists. The average annual outlay for recurrent costs has been very roughly estimated at 19.4% of the total investment requirement for the strategy.



THE DISTINCTIVE FEATURES OF A BASIC NEEDS APPROACH TO DEVELOPMENT

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## THE DISTINCTIVE FEATURES OF A BASIC NEEDS APPROACH TO DEVELOPMENT

1. There are two ways of defining a Basic Needs (BN) approach to development. The first sees in BN the culmination of twenty-five years of development thought and experience. On this definition BN embraces the components of previous strategies and approaches, such as rural development, urban poverty alleviation, employment creation through small-scale industries, "redistribution with growth," and other poverty-employment- and equity-oriented approaches. The merit of such a definition is that it rallies support under the appealing banner of "Basic Needs" from a wide variety of people and institutions. In so far as there is anything new other than the name, it is a shift of emphasis towards social services and transfer payments, designed to help the poor, and an extension of "new style" projects in nutrition, health and education. The fact that BN means many things to many people is, from this point of view, an advantage.

2. But there are also drawbacks in elevating BN to the all-embracing, almost exclusive, development strategy. It is intellectually clumsy, because it runs into difficulties of demarcation and of incorporating objectives other than basic needs; and in so far as its specific contribution is concerned, it suffers from political unreality. More generally, this type of definition tends to blur the features that distinguish BN from other strategies and therefore makes it more difficult to reach agreement by defining areas of disagreement.

3. The second way of defining a Basic Needs approach is to bring out sharply the distinctive features of BN and to define the strategy as one supplementing or complementing existing strategies. This approach has the tactical defects of its intellectual merits: it will tend to evoke controversy, arouse opposition to those aspects that opponents dislike and may reduce the chances of reaching agreement on action. But it has intellectual and political appeal, because it cannot be accused of simply pouring old wine into new bottles, or of concealing behind a polemical slogan questions calling for serious analysis and experiment.

4. In this brief Note an attempt will be made to define the differentiating features of a Basic Needs approach. If accepted, it becomes not the development strategy but an adjunct to, and a modification of, existing development strategies. The main headings of the discussion are:

- 1) Objectives: Ends versus Means;  
Concreteness versus Abstraction;  
Material versus Non-Material Needs;  
Unemployables versus Underemployed and Unemployed.
- 2) Income Approach versus Basic Needs
- 3) The Politics of Basic Needs
- 4) Supply Management
- 5) Implementation: Channels and Leakages
- 6) Linkages, Complementarities and Trade-offs
- 7) Technologies, Participation and Administration
- 8) Time Discount Rates and Basic Needs Weighting
- 9) Research Priorities
- 10) Health Services: an Illustration



## Objectives

5. BN starts from the objective of providing the opportunities for the full physical, mental and social development of the human personality and then derives the ways of achieving this objective. It focuses on the end of channelling particular resources to particular groups, identified as deficient in these resources (e.g., caloric adequacy by age, sex and activity). It concentrates on the nature of what is provided rather than on income. It is therefore a more positive and concrete concept than "eliminating poverty" or "reducing unemployment", or raising the growth rate of the incomes of the bottom 40 per cent. It does not replace the more aggregate and abstract concepts, which remain essential to measurement and analysis; it gives them content. Nor does it replace concepts that are means to broader ends, like productivity, production and growth, but it derives from the end of meeting basic human needs the need for changing the composition of output, the rates of growth of its different components, and the distribution of purchasing power.<sup>1/</sup>

6. In addition to the concrete specification of human needs in contrast to (and supplementation of) abstract concepts, and the emphasis on ends in contrast to means, BN encompasses "non-material" needs. Unlike some material needs, the means to their satisfaction cannot be dispensed, but they are a vital component of a Basic Needs approach, not only because they are valued in their own right, but also because they are important conditions for meeting "material" needs. They include the need for self-determination, self-reliance, political freedom and security, participation in making the decisions that affect workers and citizens, national and cultural identity, and a sense of purpose in life and work. While some of these "non-material" needs are conditions for meeting the more "material" needs, there may be conflict between others, such as meeting basic material needs and certain types of freedom. For other sets of needs, there may be neither complementarity nor conflict.

7. An important corollary of the preceding argument is that BN is concerned not only with the underemployed and unemployed but also with the unemployables: the aged, the sick, the disabled, and orphaned children. This group has been neglected by the income and productivity approach to poverty alleviation and employment creation. Of course, it raises particularly difficult problems of implementation not only in poor societies but everywhere.

### Income Approach versus Basic Needs

8. The BN approach is contrasted with the income approach, which recommends measures that raise the real income of the poor by making them more productive, so that the increased purchasing power of their earnings (together with the yield of their subsistence production) is adequate to enable them to buy (and grow the produce of) the basic needs basket. The Basic Needs approach in the narrow sense regards the income-orientation of earlier approaches as inefficient or partial, for six reasons.

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<sup>1/</sup> It also has public appeal. A public opinion poll found that the majority of people are hostile to "welfare" as an idea but at the same time support what the program does, like aiding poor families with dependent children or caring for the health of the poor. Similarly, "aid for development" is less appealing than meeting basic needs. See New York Times, Wednesday, August 3.

- (i) There is some evidence that consumers are not always efficient optimisers, especially in nutrition and health; and especially when changing from subsistence farmers to cash earners. Additional cash income is sometimes spent on food of lower nutritional value than that consumed at lower levels (e.g., polished rice for coarse grains or rice for wheat) or on items other than food.
- (ii) There is maldistribution within households, as well as between households; women and children tend to be neglected in favor of adult males. Both (i) and (ii) raise difficult and controversial questions about free choice and society's right to intervene, and about effective methods of aiding choice and strengthening and reaching the weak.
- (iii) Perhaps twenty per cent of the destitute are sick, disabled, aged, or orphaned children; they may be members of households or they may not; their needs have to be met through transfer payments or public services, since, by definition, they are incapable of earning.
- (iv) Some basic needs can be satisfied only, or more effectively, through public services (education, health, water, sanitation), through subsidized goods and services, or through transfer payments; these services and those under (iii) call for progressive taxation, indirect taxation of luxury goods, and for a system of checks against abuse. The provision of public services is, of course, not a distinct feature of BN. But the emphasis on investigating why these have so often failed to reach the groups for whom they were intended, or were claimed to be intended, and ensuring that they do, is.
- (v) The income approach has paid a good deal of attention to the choice of technique, but has neglected the need to provide for appropriate products. In many developing societies, the import or domestic production of over-sophisticated products, transferred from relatively high-income, high-saving economies, has frustrated the pursuit of a Basic Needs approach, by catering for the demand of a small section of the population, or by preempting an excessive slice of the low incomes of the poor. The choice of appropriate products, produced by appropriate techniques, giving rise to more jobs and a more even income distribution, which in turn generates the demand for these products, is an essential, distinct feature of the BN approach, and not necessarily fully achieved by a redistribution of income.
- (vi) Finally, as already mentioned, the income approach neglects the importance of "non-material" needs, both in their own right and as instruments of meeting more effectively and at lower costs some of the material needs. This point becomes particularly relevant if the non-satisfaction of non-material needs (like participation) increases the difficulty of meeting basic needs more than that of achieving income growth.

9. The selective approach makes it possible to satisfy the basic human needs of the whole population at levels of income per head substantially below those that would be required by a less discriminating strategy of all-round income growth. 1/

10. This point is crucial. If an unfortunate but apt metaphor is permitted, the choice is between precision bombing and devastation bombing. By attacking the evils of hunger, malnutrition, disease and illiteracy directly, their eradication (or at least amelioration) can be achieved with fewer resources (or sooner) than by choosing the round-about road of raising incomes.

11. We may think of a "gap" between available resources and resources required to meet basic needs, though this way of putting it is somewhat mechanical, because it neglects alternative methods of mobilizing these resources. The great merit of a BN approach is, then, that it can close this "gap" more successfully for two reasons: first, because fewer resources are required for closing the "gap" in a given time (or the same resources can close it more quickly), and, secondly, because it makes more resources available.

12. Fewer resources are required, or the objective can be achieved sooner, because a direct attack on deprivation economizes in the resources on which income would be spent, which do not contribute to meeting basic needs. These include, in addition to improvements in the effective instruments of implementation,

- (i) the non-basic needs item in the consumption expenditure of the poor;
- (ii) part of the non-incentive consumption expenditure of the better off; and
- (iii) investment expenditure to the extent that its reduction does not detract from constructing the sustainable base for meeting basic needs. 2/

13. In addition these fewer resources show a higher "productivity" in meeting basic needs. A combined operation for meeting an appropriately selected package of basic needs (e.g., water, sewerage, nutrition and health) economizes in the use of resources and improves the impact, because of linkages, complementarities and interdependencies between different sectors.

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1/ Some suggestive evidence for this is produced in Table 1.

2/ To the extent that meeting basic needs covers provision for the victims of disasters (floods, earthquakes, droughts) special arrangements are required and the argument of the text applies with less force.

Table 1. Poor Country Indicators<sup>\*/</sup>

Country	Per Capita GNP		Life Exp. Years	Infant Mort. per 1000 births	Death Rate per 1000	Birth Rate per 1000	Literacy %
	1950 Under \$100	1973					
Chad	"	\$ 80	38	160	24.0	44.0	5-10
Bangladesh	"	80	36	132	28.1	49.5	22
Ethiopia	"	90	38	181	25.8	49.4	5
Pakistan	"	120	50	132	16.5	47.4	16
India (Kerala)	"	120(110)	50(61)	139(56)	15.7(9)	39.9(31)	28 (60)
Indonesia	"	130	48	125	16.9	42.9	43
Tanzania	"	130	44	162	20.1	50.2	15-20
Haiti	"	130	50	150	16.5	35.8	10
Bolivia	"	146	47	108	18.0	43.7	32
Between \$100-\$165							
Sri Lanka	"	120	68	45	6.4	28.6	76
China	"	224	62	55	10.3	28.0	--
Thailand	"	270	58	65	10.3	43.4	68
Philippines	"	280	58	78	10.5	43.8	72
Taiwan	"	660	69	28	5.0	24.0	85
South Korea	"	400	61	60	8.8	28.7	71
Over \$200							
Brazil	224	760	61	94	8.6	37.1	61
Colombia	239	440	61	76	8.3	40.6	73
Cuba	--	450	70	25	6.6	29.1	78
Mexico	397 a/	890	63	61	8.6	42.0	78
United States	3,850	6,200	71	18	9.4	16.2	98

<sup>\*/</sup> Owing to the weakness of data in many of the poorer countries these figures are more useful for general comparative purposes than for precise measurement. The 1950 per capita GNP figures are in 1972 dollars calculated by USAID. The social indicators, the average for 1970-1975, and the 1973 per capita GNP figures are from The U.S. And World Development: Agenda for Action, 1976, by Roger D. Hansen and the staff of the Overseas Development Council (Washington, DC: Overseas Development Council, 1976).

<sup>a/</sup> United States per capita GNP at the time of the American Revolution is estimated to have been in the \$300 range in 1972 dollars.

Source: James P. Grant, "The New International Economic Order and the World's Poorest Billion: A Fresh Approach".

14. Finally, a direct attack on infant mortality,<sup>1/</sup> women's education and the provision for old age, illness and disability, is thought to reduce desired family size and fertility rates more speedily and at lower costs than raising household incomes.<sup>2/</sup> The causal nexus has not been established beyond controversy, but presents one of the hypotheses thrown up by the BN approach. Freedom from unwanted pregnancies is, moreover, itself a basic need. If met, it does not reduce desired family size but fertility rates by reducing the number of unwanted births. For these three reasons -- saving resources on objectives with lower priority than BN, economizing on linkages and reducing fertility rates (and, on certain assumption, population growth) -- BN economizes in the use of resources or in the time needed to satisfy basic needs.

15. BN will also tend to make more resources available, both domestically and (possibly) internationally. More resources will be available domestically for four reasons. First, the composition of output needed to satisfy basic needs is likely to be produced more labor-intensively. In countries with underemployed labor, this will raise not only employment but also production. Secondly, an attack on malnutrition, disease and illiteracy not only lengthens life and improves its quality (desirable in their own right) but also improves the quality of the labor force. It is, however, an open question whether the returns to this form of human investment are higher, at the margin, than those from more conventional investment in physical capital. Thirdly, the removal of motives for large families, by an attack on "correlates of fertility decline", mentioned in the previous paragraphs, can be (alternatively) regarded as a factor reducing the required resources, as well as increasing the available resources. Fourthly, a BN approach that is based on participation will mobilize local resources and increase incentives for higher production.

16. More resources may be available internationally, because the pledge for meeting the basic needs of the world's poor as a first charge on our aid budgets has stronger moral and political appeal than most other schemes advanced for the promotion of international assistance. There can be no certainty about this, but it is already clear that the concept has international appeal and may help to overcome the present aid fatigue by defining new forms of international cooperation and commitments. Since food is an important element in BN, and since, given the distribution of votes in Western democracies, food aid is politically easier than finance, properly channelled food aid can make an important international contribution to meeting BN.

17. It remains to be investigated how a BN approach is likely to affect specific resource constraints, like foreign exchange, administrative skills, etc. It might be thought that BN would reduce exports, but it would also tend

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<sup>1/</sup> See Table 1 for the very low birth rates in countries with low infant mortality and high life expectancy -- Sri Lanka, China, Taiwan, South Korea.

<sup>2/</sup> Robert H. Cassen, "Population and Development: A Survey", World Development, October-November 1976. Cassen emphasizes the complex processes connecting these "correlates of fertility decline", other aspects of development, including income, and fertility.

to reduce import requirements. It would probably call for more administrative skills, but if local energy can be harnessed, motivation for raising the supply of these skills would be strengthened.

18. In brief, therefore, a BN approach, because it saves resources, because it mobilizes more resources, and because it makes these resources more productive, achieves an agreed priority objective with fewer resources or sooner than a solely income-oriented approach, even if poverty-weighted, and it may make more resources available. The BN "resource gap" is narrowed or closed from both ends.

19. But two crucial questions remain: one of value and one of fact. The value assumption underlying the above argument is that zero weight (or at least substantially lower weight) is attached to the uses of all extra resources (enumerated in para. 12) that do not meet basic needs. It may be objected that governments and people who do not accept this value judgment will reject the whole approach, and those that do, won't need it. But aid agencies might wish to adopt it and governments and people do not have monolithic value systems. By dialogue and pressures they might be pushed in the direction of accepting the value judgment.

20. The crucial factual assumption is that leakages in a selective system are smaller than in a general system. If the benefits do not effectively reach the needy, the "wastage" of the BN approach may be as large as, or even larger than, that of the income-oriented, non-selective approach. This is an important area for operational research and experimentation.

#### The Politics of Basic Needs

21. It is sometimes argued that BN is an ideological (polemical, religious, emotive) concept that conceals a call to revolution. Such an interpretation can be justified neither historically nor analytically. (Even if justified, it would still require a "delivery system" for the revolution.) It is evident that a wide variety of political regimes, like those of Japan, Israel, Costa Rica, Taiwan, Korea, the People's Republic of China, Yugoslavia, Sri Lanka and others have satisfied basic needs within a relatively short time. Options for the future are even wider than the limited experience of the past twenty-five years.

22. It is, of course, true that the success of these different political regimes in meeting basic needs cannot be attributed to their having written BN on their banner. But they share certain "initial conditions" (in the distribution of assets, levels of education and health, etc.) and a set of policies that present important lessons to others attempting to meet basic needs. The fact that they started from a base at which some basic needs for health and education were already satisfied obviously reduced the time required for meeting basic needs, both directly, and through their indirect effect on the quality and motivation of the labor force.

23. If some political regimes have succeeded in satisfying basic needs within a short period without adopting the BN approach as an explicit policy instrument, others have paid lip service to the objective, without succeeding in implementing it. The reasons for this gap between professions and practice

are, ultimately, political. To some extent (it might be objected), governments lack the knowledge and administrative power to meet basic needs. Rural development programs are far more difficult to administer than those for the urban elite, though the same governments are often capable of administering complex programs of import restrictions or investment licensing, where the protection of the privileged is in question. The neglect might also, partly, be explained by the system of incentives and the type of technologies considered to be essential to a development strategy. But neither administrative weakness nor incentives and technology can fully account for what must ultimately be attributed to absence of a political base. High marginal tax rates, paid by very few, and land reform legislation on paper that remains unimplemented, are the result not so much of administrative weakness, or belief in the need for incentives, as of the fact that the rich operate the machinery to what they regard as their advantage.

24. If the failures of past strategies are due to vested interests and to the political obstruction of those who would lose from a basic needs approach, it becomes essential to show how these forces can be kept in check. In many regimes the poor are weak bargainers and are not a political constituency. But measures to meet basic needs can be implemented by a reformist alliance, in a peaceful manner. Some of these measures are clearly in the narrow self-interest of the dominant groups, like the eradication of communicable diseases or the preservation of social peace. Others are in the longer-term interest of some groups who would have to mobilize support for gradual reform. Urban industrialists and workers may support a land reform benefiting small farmers and landless laborers, if this promises more food.

25. It is, however, possible that the mobilization of the rural and urban masses, required for this approach, could initiate a revolutionary process which the initiators of the mobilization process may regret. The conditions in which this is liable to happen, and the conditions in which a grass roots democracy on a pluralist model would emerge, have received almost no attention so far. Whatever the route, a BN approach, having identified the political, administrative and institutional obstacles to fulfilling basic needs, must specify how these constraints are to be removed.

#### Supply Management

26. It has been argued that a distinguishing feature of the BN approach is that it is not sufficient to channel purchasing power into the hands of the poor, through employment creation, productivity-raising measures, improvements in access to productive factors for the self-employed, and appropriate policies for relative prices. The structure of production must be such that it responds speedily to the demand for BN generated. The issue here is whether additional direct interventions in the productive system are then required.

27. There are great merits in a system that relies on raising the productivity of the poor sufficiently to channel purchasing power to them, and then permits prices and market forces to allocate supplies. No objections in principle are commonly raised against using selective price policies (indirect taxes and subsidies) to steer consumer and producer choices in the

direction of meeting basic needs. Experience in some countries has shown that attempts to interfere directly with supply by rationing, licensing, building permits and other direct controls have been open to abuse and have, at best, bred inefficiency, at worst strengthened monopoly power, increased inequality and encouraged corruption. Yet, it may be necessary to combine the generation of earning opportunities with some forms of direct supply management, in order to prevent the intentions of demand policy from being frustrated. The purpose of higher money incomes for the poor can be frustrated by rising prices of the goods and services on which they spend their income, if additional supply is not forthcoming, so that real incomes have not improved (e.g., when improved agricultural prices lead to higher prices of industrial products bought by farmers). Or the higher money incomes of one group of poor may be met by extra supplies, but only at the expense of the supplies to another group who then suffer from deprivation.

28. The disadvantages of rationing and other direct controls have been examined largely in the light of the efficient allocation of resources for production and growth, though there has been some work on the impact on employment and income distribution. But there has been hardly any work of the scope and limits of these instruments for the purpose of meeting basic needs. A reassessment may well lead to the modification of some of the conclusions.

29. Changes in relative prices are useful instruments for marginal adjustments, but they are not always equally suitable for bringing about discrete changes. Total prohibition of the import and the domestic production of a non-basic needs item is often a better way of controlling its consumption (and, indirectly, technology and income distribution) than a tariff combined with an excise tax, if policing to prevent smuggling and bootlegging is effective. Since controls can only prevent activities, not induce them, the positive counterpart to controls may be production in the public sector.

30. According to one interpretation of BN, the domestic structure of production must be adapted to BN requirements. If this were to imply forgoing the benefits from foreign trade, such an interpretation would, of course, be nonsense. "Supply management" must cover wholesale and retail distribution, transport and storage, and foreign trade. But a needs-oriented approach may raise previously neglected issues in inter-regional and international trade. Thus, if it were found that the poor in scattered rural communities cannot purchase the food grains imported from abroad (or produced in the most "efficient" areas domestically) because, in comparing costs, the costs of transport, distribution and storage were not fully taken into account, it may well turn out that the food should be locally produced, even at what appear to be somewhat higher costs. 1/

#### Implementation: Channels and Leakages

31. Some critics of the BN approach share the goal of meeting BN but object that, unless specific steps are spelt out that lead to their satisfaction, it cannot be called a strategy. This is an entirely valid invitation to think through the implications of a BN approach. No doubt, as yet

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1/ For evidence on this from Kerala, see Poverty, Unemployment and Development Policy, United Nations, New York, 1975.



there is nothing that could be described as a fully articulated BN strategy, even as an adjunct to other strategies. For those who agree on the objective, the conclusions ought to be (a) further work in areas of ignorance (see below) and (b) experimentation with a wide variety of approaches in the initial stages, so that experience from pilot projects is gathered for replication.

32. Among the many areas in need of clarification is the question whether meeting basic needs directly is more promising than doing so indirectly. Certain types of indirect approach, such as "trickle-down" through concentration on sectors with high commercial returns and the resulting high income growth, irrespective of its composition and distribution, have been discredited. But others remain to be explored. Thus, if we are concerned with the bottom 40 per cent, would it be better to concentrate on those who are potentially viable farmers, and hope that out of their higher production welfare payments for the poorest 5 or 10 per cent will become possible, or employment opportunities will be generated, or should the needs of the poorest be met directly and immediately? The importance of channeling particular resources to particular groups does not imply that some indirect ways of channelling them may not be more effective than direct ways.

33. One of the inadequacies of past approaches is that they have not done full justice to the precise impact of public services on satisfying basic needs.

34. The study of how public services can reach the poor and how the poor can mobilize their own efforts to make these services effective is still in a rudimentary state. The questions it has to answer are: how can we ensure that public revenues, devoted to public services to meet BN, actually reach the groups at risk; how is access to the bureaucracy secured, how appropriate priorities in the line of applicants, and how efficient ultimate benefits for those in need? What system of checks against abuse, and of monitoring to ensure success are required?

35. While social services for the poor and their biased impact have received a good deal of attention, the biased impact of many systems of taxation has been neglected. Either taxes do not exist, or nominal taxes are not collected, or, where they are collected, their ultimate incidence is shifted onto those least able to bear them. A thorough scrutiny of the system of collecting revenues and the incidence of taxation from the point of view of meeting basic needs is as important as one of examining the incidence of public services.

#### Linkages, Complementarities and Trade-offs

36. The improvement of nutrition, or of water supply, or of sanitation, or of health services, each in isolation, may have a smaller impact on the mortality or morbidity of a poverty group than a concerted attack. Without adequate nutrition, resistance to diseases will be lower and the cost of a health program higher. Without the elimination of gastro-intestinal diseases, nutritional requirements are higher. Without safe water, control of communicable diseases and improvements in public health, nutritional programs are

unlikely to have permanent benefits. There is evidence that family planning programs are more effective if combined with nutrition and health measures. The benefits of education in raising the effective impact of all other services is obvious. While a concerted attack on several fronts or a "Big Push" is, therefore, more effective, resources are scarce and policies have to be selective. Alternatively, there may be trade-offs between, say, eradicating malaria and some other operation. In such cases a "vertical" or spearhead approach would be more appropriate than a "horizontal" approach. This implies that the quantification of the costs and the benefits of these services must be conducted in terms of selective packages. The implications for project appraisal are clear. Costs per unit of a given public service may be reduced if the service is combined with others, and the impact on health, education, nutrition or family planning may be raised by such a combination. For some purposes "balanced growth", for others an "unbalanced" attack may be more economical. Detailed investigation of these issues is an essential feature of the successful implementation of a BN approach.

#### Technologies, Participation and Administration

37. The cost of providing for basic needs will vary over a wide range, depending on the technology. But the technology, in turn, will depend on the degree of local initiative, commitment and participation, the amount and quality of local factors of production and materials mobilized, and local cultural attitudes and social institutions. The managerial and administrative framework for implementing BN is crucial for its feasibility and costs. Much is talked about the need for participation and self-management. The important questions, however, relate to the precise combination of central leadership, central co-ordination and central resource contribution, with decentralized decision-making and mobilization of local resources (especially underemployed, low-cost labour) which would, in specific circumstances, be most effective.

38. Past calculations have often started by counting those in need and estimating the cost of eliminating the deficiency. The counting was often wrong (in view of the poor data base), and the standards of what was supposed to be supplied often ill chosen. The resulting bill for "needed services" was exorbitant, and in practice, the partial attempts to provide them that resulted rarely succeeded in reaching the poor. Planning for BN should set standards that are correct and allow for the wide interpersonal and inter-temporal variations in human requirements; it should pay attention to what can be afforded by the use of appropriate technologies; it should pay attention to social and cultural forces, mobilize local resources and concentrate on processes and sequences that meet the needs of the poor. The "count, cost and carry" approach has little to contribute to this. The correct approach is still largely unexplored.

39. Allowing for individual variations in energy requirements reduces the estimated shortfalls. As P.V. Sukhatme has shown, the incidence of undernutrition for India comes to 25% for the urban areas and 15% for the rural area against the estimates of 50 and 40% respectively made by Dandekar

and Rath based on a poverty line corresponding to average requirements. 1/

Time Discount Rates and Poverty Weighting

40. A distinct feature of the BN approach is its structure of time discount rates. The structure will register how many extra dollars we are prepared to sacrifice in 1 year's, 5 years' or 20 years' time, for an extra 100 dollars today. Implicit in the BN approach is a high rate of time discount for the near future, reflecting the urgency of meeting basic needs soon, subject to maintaining achieved satisfactions of basic needs indefinitely.

41. The first strategy ("Consumption Transfers") simulated in Ahluwalia and Chenery's "Model of Redistribution and Growth" 2/ captures the essence of a strategy that goes for short-run pay-offs. On the assumptions of this model, which, admitted by the authors, exaggerates some of the shortcomings of this approach, the consumption levels of the poor are substantially above the "Basic Solution" for the first twenty-five years, but after that the growth of the income of the poor is reduced not only below that of the Investment Transfer Solution, but also the Basic Solution. To the extent, however, that meeting the basic needs of children, e.g., by school feeding programs, is an investment in the future labor force, and that meeting basic needs reduces the rate of population growth, the approach can be regarded as adopting a low time discount rate over 15 to 30 years. The operational implication of this is that measures to raise the consumption of the poor now and in the near future, as long as they are conducted on a sustainable basis, will be acceptable even if they reduce capital formation for future consumption growth below what it would otherwise have been, but that this sacrifice is reduced by the bonus we derive from investing in future generations and reducing population growth.

42. Another distinct feature is the weighting of meeting the basic needs of those at different distances below the basic needs standard. Previous approaches either simply count the heads of those below a defined poverty line, without distinguishing degrees of deprivation among them, or attach differential weights to income growth of different deciles. A.K. Sen has suggested a weighted measure of the income shortfalls below the basic needs line. He takes the rank values of the poor in the income ranking as the weights to be put on the income shortfalls of the different persons in the category of the poor. If there are  $m$  people with incomes below the basic needs line, the income shortfall of the richest among the poor gets a weight of 1, the second richest a weight of 2, and so on, ending up with a weight of  $m$  on the shortfall of the poorest poor. This measure has the virtue of being sensitive to the exact pattern of the income shortfalls of the poor from the basic needs line.

43. But we have argued that income is an inadequate and only partial guide to basic needs. We need to supplement the above approach by taking

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1/ P.V. Sukhatme, Malnutrition and Poverty, Ninth Lal Bahadur Shastri Memorial Lecture, January 29, 1977, Indian Agricultural Research Institute, New Delhi, p. 16.

2/ Chapter XI in Chenery, et. al., Redistribution with Growth.

explicit account of which goods and services are going to whom. Again, Sen has suggested that "commodity  $j$  going to person  $i$  may be thought to be a good  $ij$  in itself, not the same as the same commodity going to another person  $k$ , which is now taken to be a different good,  $ik$  ... The approach can, of course, be married also to that of dealing with characteristics such as calories as opposed to specific commodities such as rice or bajra." In this manner, weights would be attached not to income but to specified goods and services or even to the impact on specified basic needs.

44. A pure BN approach would give zero weight to meeting the needs of those above the basic needs line, until the basic needs of all are met. But if the BN approach is regarded as an adjunct to other strategies, the relative weight to be attached to income growth of those above the basic needs line remains to be determined by the policy makers. To illustrate: a pure BN approach would sacrifice any amount of capital accumulation, if thereby the BN of all can be satisfied, on a sustainable basis, within a short period. A mixed strategy might prefer to leave the BN of 5 per cent unsatisfied, if thereby sustained growth of income above basic needs can be attained for the remaining 95 per cent.

#### Research Priorities

45. An important conclusion from having identified the distinct features of a supplementary BN approach is the redirection of research. It is in the areas discussed in paragraphs 26-44 that future work is likely to yield promising results, although economists as such have little to contribute to some of the principal problems. The work should start from an appropriate country typology that distinguishes:

- (a) between countries with relatively high average incomes per head, in which an emphasis on redistribution of income and assets and a redirection of social services can make a substantial contribution to meeting basic needs, and those with very low incomes, in which growth is an essential condition for meeting basic needs;
- (b) between countries whose political system encourages self-reliance and local mobilization and those that will depend heavily on external assistance;
- (c) between countries with high population density and little cultivable land, in which land redistribution holds out limited scope, and those with abundant cultivable land in relation to their population;
- (d) between smaller countries that can hope for growth in employment opportunities from labor-intensive exports and larger countries, in which foreign trade plays a relatively smaller role;

- (e) between countries in which a large proportion of the population live in the countryside and where rural development has greater importance and those with a large proportion of urban population.

Different political regimes and different administrative, technological and ecological conditions are also relevant.

46. Work will also be needed on the development of systems of monitoring BN. Social indicators, methods of developing composite or integrated indicators (such as an extension of life expectancy to comprise the dimensions of basic needs) and their correlation with economic indicators are prerequisites for analysis and policy. Once these are available, we can assess the impact of policies on meeting basic needs.

#### Health Services: An Illustration

47. The kind of evidence one would hope to gather from country, program and sector studies can be illustrated by a comparison of the organization of health services. The "barefoot doctors" in China are the best known example of an "appropriate medical technology". A village appoints one from among its members to go off for a period to be trained and then return and serve the community at a rate of pay that is calculated in points, as it is for all other members of the team. It is important that the health worker is not an outside bureaucrat, sent in by the government, but a full member of the commune. There is equal access to the health services, at least within the village, though better-off communes appear to be able to acquire better social services.

48. The collective farm is not the only organization capable of doing this. Villages with individual farming in other parts of the world have pooled resources and provided members of the village the means to acquire special training, but the collective farm has advantages in this form of pooling. Clearly, there must be a corresponding decision at the centre to provide the required training for the commune's candidate. In China, the central government had to make a conscious effort to reallocate a significant portion of its resources away from urban services towards activities that benefited rural areas.

49. This provision of rural health services was not delivered as a separable and isolated benefit. The impact and cost of these services is in many ways dependent on the provision of basic levels of food and income. Rural health services, for example, provide birth control information and contraceptives. The old and the sick, who were not helped much by land reform, could draw on the welfare funds of the commune. The availability of old age sickness benefits that do not depend on having several surviving sons provides villagers with the incentive to use these contraceptives. The provision of improved health services interacts with other rural efforts, such as the mobilization of labor for rural construction works.

50. In India, the proposal in the Draft Fifth Plan is to select from each village through the existing institutions of *panchayats* and *gaonsabhas* one literate individual for health training at the Primary Health Centres. But past experience shows that the training has been very poor, based on concepts borrowed from the West, unrelated to local practice and needs, with high costs and poor results. The training institutions were ill-equipped and underutilized. There are problems of pay scales, and of frequent transfer of personnel after training. Trained health workers apparently work for a transfer from the day they are posted to a village. *Dai* training suffered from the fact that the trainers (Lady Health Visitors and Auxiliary Nurse Midwives) competed rather than cooperated with the *dais*. The *dais*, moreover, having accepted kits and money from the government, were treated by the villagers as outside agents of the government. Neither the Centre nor the States provided adequate finances to support the scheme.

51. Social stratification in rural areas has created its own problems. Inadequate and deficient though the medical services were, they have tended to be monopolized by the rural rich. Planners, working with the myth of a "village community", have concluded that lack of medical care for the poor is due to their indolence, inertia and servility. Basic decisions about leadership in health administration, resource distribution between urban, curative, and rural preventive services and the breaking of bottlenecks show strong urban bias.

52. Some states in India are exceptions to the above characterization. Kerala has attained the lowest mortality rates and the highest life expectancy among the states in India, at a level of income per head below the average. (See Table 1.) The higher levels of nutrition are probably connected with land reforms instituted in the nineteenth century. Improved calorie intake was largely the result of higher production of tapioca. But other states show both higher calorie intake and higher per capita incomes, and yet show higher mortality rates. This suggests that, in addition to other aspects of a better diet (e.g., more vegetables, fruits, fish and eggs), other factors than nutrition may have contributed to the remarkably good health record in Kerala. The main factor is the expansion and spread of appropriate health facilities. Figures for population numbers served by hospitals and dispensaries show a better coverage for West Bengal than for Kerala. But the proportion of persons who received treatment in hospitals and dispensaries in the two states show a utilization ratio for Kerala three and a half times that of West Bengal. Much of the trouble of the health services in the rest of India is gross underutilization of existing facilities. Kerala has the highest utilization ratio. It thus achieves better results with a lower expenditure per person.

53. The factors responsible for the high utilization ratio have not been studied, but an important reason may be the spatial allocation of such facilities. Even if medical care is free, a person incurs direct and indirect costs in travelling to a hospital or dispensary. For those working on daily wages, a visit may mean sacrificing a day's pay. Only when the illness becomes serious enough to risk loss of employment will the journey become worth while. The objective of a good health care system should be to enlarge the catchment area so that the utilization ratio rises, and discrimination by income and by location is reduced.

54. There is evidence that the high utilization ratio in Kerala is due to a location matrix that has provided the widest catchment area for its health system. In different regions of the state, there is a clear correlation between, on the one hand, number of beds per 100,000 of population and area to be covered and, on the other, death and infant mortality rates. Accessibility to medical care (by income and residence) is one of the important variables determining the level of health in a region.

55. Like land reform, the policy goes back to the nineteenth century. The Maharajah announced the following state policy in 1865:

"One of the main objects of my ambition is to see that good medical aid is placed within the reach of all classes of my subjects. It is a blessing which is not at present in the power of individuals generally to secure how much soever they may desire it. It is hence the obvious duty of the state to render its assistance in this direction." 1/

56. Again, it is clear that success was due to a multi-pronged attack. Side by side with medical institutions, the government of Travancore paid attention to preventive measures: improvement of public health and sanitation, eradication of contagious diseases, public health education, school health inspection, etc. More than anything else, the spread of education made the people accept the health programme of the government.

57. Kerala has also registered a sharp decline in birth rates. It is not clear how far this is the result of the extension of family planning facilities, of health services, of reduced mortality rates, of a rise in the age of marriage, of education, especially women's education, of provision for old age or a combination of these "correlates of fertility decline". (Birth rates 1972: India: 38.4, Kerala: 31.5 per 1,000 population.) It is also interesting to note that the rural-urban difference in birth rates in Kerala (where such differences are generally far less pronounced) was negligible in contrast to other states. The decline in the birth rate in Kerala began in early 60s (1951-60: 38.9 per 1,000), before the full-scale launching of the family planning programme, and may have had more to do with health and educational, than with family planning facilities.

58. It would be quite wrong to conclude that the success of Kerala is due primarily to measures by the communist elements in its state governments. The origins go back to a fairly radical land reform in the nineteenth century in the southern part of Kerala by a local monarchy interested in weakening the hold of feudal elements. Moreover, Kerala succeeded in meeting basic needs as a state in a nation that was less successful with central measures. Indian states with substantially better economic performance have been less successful in meeting basic needs. It is from comparisons like these that one would hope to learn useful lessons.

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1/ V. Nagam Aiya, The Travancore State Manual, vol. II (Trivandrum, 1966) p. 537.





BASIC NEEDS: A PROGRESS REPORT

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## BASIC NEEDS: A Progress Report

### I. Introduction

1. Alleviation of poverty is not a recent concern. What is recent is the concern that successive responses to the problem have not had a sufficient impact on world poverty. Despite a fairly impressive aggregate growth rate in the income of the developing countries over the last 25 years, over one-half of their present population still cannot meet their minimum basic needs. The question has, therefore, arisen whether by focussing directly on the objective of basic needs itself, rather than on the means of overall growth, it is possible to advance the time period for meeting the basic needs of the vast majority of their populations.

2. A preliminary paper on this subject was circulated in March this year.<sup>1/</sup> This paper:

- traced the historical evolution of the concept of basic needs;
- described, in general terms, the essential features of a development strategy aimed at meeting basic needs in a manageable period of time; and
- identified some operational issues on which further work was required.

3. The present paper is in the nature of a preliminary progress report, summarizing the main areas of agreement and disagreement in the discussions so far; indicating the further work that has been done since March and outlining the next steps to clarify the concept of basic needs and to make it operational.

### II. Areas of Agreement and Disagreement

4. Some of the initial controversies around the concept of basic needs proved, on calmer examination, to be based either on misunderstandings or on the exaggerated claims of the proponents and the exaggerated fears of the opponents of the concept. For instance, it was soon realized that:

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<sup>1/</sup> Basic Needs Issues Paper (PRC/C/77-9), March 21, 1977.

- Economic growth was absolutely necessary to achieve basic needs, especially in the poorest countries: what was under attack was not growth of GNP but its specific content and its distribution. The main issue was what type of growth could enable a society to satisfy the basic human needs of its whole population considerably sooner than they would be under a less discriminating strategy of all-round income growth.
- The concept was a relative, not an absolute, one: no one was seriously suggesting that nothing else should be produced except basic needs or that everyone getting more than his basic needs should be completely neglected. Moreover, in many societies, the only practical option may be partial progress on selected fronts rather than comprehensive advance on all fronts.
- While the basic needs objective was valid for all developing countries, it was more urgently relevant for the poorest nations than the middle-income countries. The poorest nations, even if they manage to double their present per capita income growth rates, could hope to attain a level of less than \$400 by the year 2000 so that they must find some shortcuts to restructure their production and consumption patterns in such a way as to meet the basic needs of their population sooner, at a relatively low per capita income. The middle-income countries, which have the prospect of exceeding an average per capita income level of \$2,000 by the turn of this century, even at their present growth rates, have relatively more options available to provide basic needs to their populations through a variety of redistribution devices.
- Political decisions are critical, whether the development strategies are labelled "basic needs" or anything else. The chief proponents of basic needs sometimes tend to understate the institutional reforms and political restructuring necessary to pursue the objective successfully, just as its chief opponents often conveniently forget that tough political decisions are not only peculiar to a basic needs approach but to any approach that aims at improving the welfare of the poorest sections of society.

5. Some progress has been made in the last three months to narrow down the areas of disagreement, to eliminate false issues, to focus on giving a more precise definition and content to the concept of basic needs, and to concentrate on identifying operational policies which give emphasis to this objective in national and international actions. The rest of the paper is devoted to the latter aspects. This is not to say that controversies around the concept of basic needs have died down, or will ever die down: see, for instance, a background paper by Paul Streeten<sup>1/</sup> which focusses on the essential nature of these controversies. But it would be fair to say that there is general recognition now that the next phase of the work should focus not so much on the elaboration of the basic concept as on the operational policies needed to implement it.

<sup>1/</sup> Paul Streeten "The Distinctive Features of a Basic Needs Approach to Development," Basic Needs Paper, No. 2, August 10, 1977.

### III. An Operational Definition

6. It has proved difficult to define and measure basic needs with a degree of analytical or operational rigor which would be generally acceptable. Part of the difficulty is inherent in the concept itself since human needs are relative to each society, and not absolute. They change with environment, climate, level of development, cultural diversity, and over time - as they should. Moreover, basic needs will vary depending on whether the objective is (a) bare survival, (b) continued survival, or (c) productive survival, and whether only the material or certain non-material needs are also taken into account.

7. From an operational point of view, however, it is unnecessary to exaggerate these difficulties which are inherent in defining the profile of poverty itself or any other socio-economic problem for that matter. All that is necessary is to acknowledge that there is not one unique set of basic needs, but a hierarchy of them, and that each society is going to determine them itself. What we can identify are certain minimum standards for productive survival, recognizing that these lead to the lowest possible estimate of shortfalls in basic needs in aggregate terms, since some societies are going to adopt higher standards (see background paper for details<sup>1/</sup>). The distinction is parallel to the concept of absolute and relative poverty: defining basic needs in an absolute sense does not mean that they will not vary between different societies.

8. With these qualifications, the list of "core" basic needs can be narrowed down to five (food and nutrition, drinking water, basic health, shelter, and basic education) and defined as follows:

- Food: An adequate basic diet is the daily intake of sufficient protein, carbohydrates, fats, vitamins, and minerals to allow human beings to conduct the required physical and mental activities in good health. The average daily per capita calorie requirement for such survival is about 2,350 for an adult male. The present population getting less than this requirement is estimated at roughly 930 million.
- Drinking Water: The basic need for drinking water is defined as reasonable access to water that does not contain any substances harming the consumers' health or making the water unacceptable to them. Reasonable access is defined as availability of public hydrants within 200 meters in urban areas. In rural areas, the source of water should be sufficiently close so that no disproportionate part of the day is spent fetching water. The populations unserved by clean, drinking water are estimated at roughly 1,200 million.

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<sup>1/</sup> S.J. Burki and J. Voorhoeve "Global Estimates for Meeting Basic Needs: Background Paper," Basic Needs Paper, No. 1, August 10, 1977.

- Basic Health: Basic health services are the public and private measures needed to prevent and cure the most common, avoidable or curable diseases and other forms of bodily harm. They include, among others, maternal and child care and instruction of the population in elementary sanitation and nutrition. Basic health services may also include family planning measures. The number of people presently deprived of these basic health services is estimated to be at least 800 million.
- Shelter: The basic need for housing is more difficult to define but can probably be boiled down to the need for (usually a permanent) shelter which protects human beings, their families, or other social groups from harmful climatic influences and other dangerous factors in their natural environment. Basic housing represents the minimum socially acceptable dwelling standards among the poorer strata of society. There are no reliable estimates of people deprived of basic housing but their number is likely to be at least 800 million.
- Basic Education: Basic education is intended to provide a functional, flexible and low-cost education for those whom the formal system cannot yet reach or has already passed by. The "target groups" of basic education are not necessarily school-age children: they may vary according to age (children, youths, adults) and socio-economic characteristics (rural-urban groups, women, participants in particular development programs). The present population deprived of basic education is estimated at roughly 1,100 million, i.e., 300 million children out-of-school, and 800 million adult illiterates.

#### IV. Policy Content of Basic Needs

9. Assuming that a country defines the basic needs of its people and makes their early achievement a primary objective of its development strategies, what operational policies would this lead to? It is impossible to say with great precision, though the discussion so far has led to the identification of at least three main components of policy - on the first two of which there is substantial agreement, and on the third a continuing controversy:

- increasing the productivity and income of the poorest sections of society by making improved means of production available to them;
- redesigning and expansion of public services so that the poor get an easy access to them; and
- ensuring, through intelligent supply management, that greater income of the poor is matched by greater supply of basic wage goods.

Our present state of knowledge about these three components is perhaps in the descending order.

10. It is widely agreed that the most important step is to assist the poor to become more productive. A good deal of experience is already being accumulated by national governments and international community in providing the means of production to the small farmers, cottage industries and small commercial enterprises. What is badly needed, however, is a critical evaluation of this experience: to what extent are these programs really working? what is a conducive environment for their success? what is the contribution they are making to solving the overall problem of poverty? The debate on basic needs has not materially altered these fundamental issues: it may only have sharpened the urgency of some of these questions.

11. But the basic needs debate has added more questions to the familiar issue of increasing the productivity of the poor. It has spotlighted the plight of those poor people who own no assets - landless labor, unemployed, children - and whom the present programs may fail to reach unless they are supplemented by a major expansion of employment opportunities, public services and/or transfer payments. The numbers involved are not small: 350 million adults without any tangible assets; over 800 million children, without the prospect of most of them getting their basic minimum needs during childhood when their long-term productive potential can either be built up or crippled; about 20% of the destitute who are sick, disabled and aged and whose needs can only be met through transfer payments or public services since, by definition, they are incapable of earning.

12. The debate on basic needs has led, therefore, to a greater stress on the expansion of public services (education, health care, water and sanitation, public transportation, sites and services). It is a natural corollary that, within the limited means of the developing countries, these public services cannot be expanded on a wide scale and made accessible to the poor unless their fundamental character is changed: "bare-foot doctors," non-formal education, communal water taps, etc. Instead of the present lavish services in many countries which spread only to a privileged few. In other words, public services must be low-cost, broad-based and replicable.

13. The experience in this field is more limited, though increasing. It is important to analyze some of the present programs in the delivery of low-cost public services to see what broad lessons can be drawn for the formulation of a development strategy. At least, three areas deserve attention in order to gain some operational insights:

- a. A systematic evaluation of present programs, particularly in the delivery of non-formal education, health care, nutrition and clean water. A number of studies are already available in selected sectors and countries: a critical evaluation of some of these studies should be attempted.

- b. One of the major questions that the basic needs discussion raises is whether it is more economical to think in terms of packages of public services delivered to specific poverty target groups. There are few experiences to go by here, except perhaps China's in almost unique circumstances. But the basic proposition is intuitively appealing and requires more empirical work, which can also be distilled from the experience of presently developed countries.
  
- c. Another area for investigation is the "proper" balance between the expansion of productive programs and of public services. While increasing the redesigned public services will raise the productivity of the poor in the long-run, in the interim these services have to be sustained by increases in productivity elsewhere in the economy. It is easy to get out of step: for instance, Sri Lanka, very creditably, increased its literacy to 90%, raised its life expectancy to 70 years, lowered its death rate to less than 1%, all in a matter of 25 years through an expenditure of about \$12 per capita per annum on public services, but in the process it also got its economic and social programs sadly out of balance and found that it could no longer sustain these improvements without stepping up its economic growth. This has happened elsewhere, and will happen often again, unless more careful analysis and thought is devoted to what constitutes an ideal balance between economic and social programs at various stages of development.

14. There is a fairly wide agreement on the two elements discussed so far - increasing the productivity of the poor and expansion of redesigned public services. The only differences lie in the relative emphasis on these two programs. The third element - supply management - however, raises far more emotions and ideological controversies. The proponents of basic needs contend that, in a poor society, the production of non-essential goods (apart from exports) should be tightly controlled; all incentives and market signals should be modified towards the production of basic wage goods and services; the state should stand ready for large-scale market intervention if the existing markets are a slave to the interest of the privileged groups. Without these further steps, the increased income in the hands of the poor may largely evaporate into higher prices if corresponding supplies of basic wage goods are not readily available. The opponents of basic needs programs fear that such market interventions will often be inefficient, serve only the interests of the ruling elite, and are probably a soft-sell for communism. At the height of this debate, often poverty gets forgotten and ideology takes over.

15. It is not possible to give a consensus view in this area, since no consensus really exists. Probably there would be a large measure of agreement that income of the poor should be matched by real supplies to the poor. The extent to which existing markets and decision making structures can ensure the emergence of such supplies (and non-emergence of non-essential goods)



is likely to be a matter of continuing debate. In the last analysis, it is an operational issue which should be empirically tested: to what extent various societies wish to, or can, deny non-basic goods to those who have the income and the power to influence existing market structures? what type of market interventions have succeeded, or failed, in meeting basic needs, under what circumstances? are there any efficient delivery systems besides public services for direct supplies to specific target groups: for instance, in ensuring adequate nutrition to school-age children? The answers will, of course, be different in different societies which does not mean that the problem of matching income and supplies for the poor disappears or becomes irrelevant to the search for meeting basic needs in a manageable period of time.

16. Behind all these controversies lurks the uncomfortable political question: can all this be done in a reformist fashion? are the political decisions so fundamental as to require a revolution? The only possible answer is that most societies are likely to proceed in a pragmatic fashion and would try a gradual, partial and reformist approach. However, this is a field where economic analysis ends and other disciplines take over. While so much has been written on world poverty, so little analysis has gone so far into the political, institutional and administrative framework required to make a successful attack on poverty and to remove obstacles to fulfilling basic needs. Some inter-disciplinary studies in this field must be organized soon.

17. In summary, the net result of the discussion on the specific policy content of basic needs has been to clarify some of the central questions and to sharpen the priorities for future work. This aspect is pursued further in section VI below.

#### V. International Implications

18. If the developing countries seriously set themselves the objective of meeting the basic needs of the majority of their populations in a reasonable period of time, say by the end of this century, what are the policy implications of this for international action? Before proceeding further, let it be recorded for the purists that neither all the developing countries are likely to adopt such an objective simultaneously nor is there a particular sanctity about the year 2000: the intention is to review the dimensions of this problem in a specific time frame and to mobilize national and international efforts for the common objective. Moreover, as noted in para. 7 above, the global estimates, by their very nature, represent the lowest end of the scale since they are worked out from minimum standards of basic needs.

19. Considerable work has been undertaken on global estimates by various institutions and organizations, though strictly on a sector basis. An attempt is made in a background paper<sup>1/</sup> to pull together all this work. With all the qualifications that such estimates are usually subject to, the overall conclusions are as follows:

<sup>1/</sup> S.J. Burki and J. Voorhoeve "Global Estimates for Meeting Basic Needs: Background Paper," Basic Needs Paper, No. 1, August 10, 1977.

Additional to what?

- A basic needs program aimed at providing minimum acceptable diets, drinking water, sewerage facilities, public health measures, basic education and upgrading of existing shelter might require an additional annual investment of nearly \$20 billion over a 20-year period (1980-2000) in 1975 dollars and prices.
- If annual recurrent expenditures are added to the investment costs (as they must for any successful implementation of these programs), the annual costs will run up to about \$45-60 billion.
- If the task is to be accomplished by the year 2000, the cost of the program appears to be beyond the capabilities of the developing countries alone, particularly the low-income countries where absolute poverty is concentrated. The annual additional costs (recurrent and capital) of the basic needs programs for low-income countries might be in the order of \$30-40 billion which is 12-16% of their average GNP during the period and 80-100% of their gross domestic investment.
- This means that either the poorest countries will have to extend the time period for achieving this objective much beyond the year 2000, or they would require considerable additional transfer of concessionary resources from the rich nations as well as redirect their existing investment and current expenditures.
- If the rich nations underwrite about 50% of the additional costs of the basic needs programs, this would require about \$22-30 billion a year, or about 0.35% of their future GNPs. These amounts can be provided if there is both a real increase in ODA levels and if at least the incremental ODA is mainly redirected towards the poorest nations and the basic needs programs.

20. The specific numbers must be treated with great caution but the overall conclusion is quite obvious: the objective of meeting basic needs of the vast majority of mankind by the turn of this century is not beyond reach if developed and developing countries choose to collaborate on this essential task. The full policy implications of such a collaboration - or "global compact" - can best be pursued within the framework of the forthcoming Bank study on World Development issues. This study should attempt to assess periodically the impact of all development policies - aid, trade, debt relief, commodity schemes, technology transfers, monetary reform - on meeting the basic needs of the poor.

21. At the same time as the broader international implications are explored, we would need to carry out some analysis to examine the specific implications for the World Bank itself. Particularly, the following issues need to be analyzed if basic needs programs are to receive additional emphasis:

- Should the Bank start lending for public health services as well as increase its lending to other existing programs aimed at basic needs (food and nutrition, non-formal education, water and sewerage, upgrading shelter)?
- How should the financing of recurrent costs be handled which are such a large part of the basic needs programs?
- Should we urge our member countries to undertake the preparation of action plans for meeting basic needs and offer our technical assistance in doing so?
- What coverage should we give in our country economic and sector analysis to the examination of basic needs programs?

These are not easy questions. There has been considerable debate on them within the institution in the last six months. Some tentative answers are available, but based on rushed analysis. What we need now is to organize specific policy studies on each issue over the course of the next year so that some thoughtful options can emerge for consideration by senior management.

#### VI. Priorities for Future Work

22. The main task, therefore, is to organize such studies and work as would increasingly give an operational dimension to the concern for basic needs.

23. Some of this work must proceed in a specific country context since individual countries are going to design their own basic needs programs in the light of their own problems and opportunities, and since they are also the basic programming units for international effort. However, the individual country analysis undertaken so far - while interesting in offering some operational examples - has not proved very productive from a broader policy point of view. It is difficult to generalize from unique examples unless we study some functional areas in a comparative framework. At least, this is the conclusion drawn from two country studies carried out so far - on China and the Sahel. Another study on East Africa (Kenya, Somalia and Tanzania) has been underway in the IDS at Sussex but is in too preliminary a stage to report. Our overall conclusion, therefore, is that while it may be useful to do some individual country analysis according to some country typology, it would be more helpful to undertake comparative studies of operational policy issues and delivery systems in the next phase of work.

24. The list of such issues has already taken shape from the debate so far and has been mentioned in the foregoing discussion. To recapitulate briefly, the priority issues are:

- a comprehensive evaluation of programs aimed at increasing the productivity of the poor;
- a study of low-cost, broad based and replicable public services, alongwith analysis of suitable packages of services and of the appropriate balance between the expansion of public services and of "productive" sectors;
- an examination of the experience with supply management policies and instruments in specific sectors and countries;
- a study of the political, institutional and administrative obstacles to implementing the basic needs objective;
- an analysis of the implications of basic needs programs for the volume, geographical distribution and sectoral link of foreign assistance;
- specific policy studies on how the basic needs emphasis can be incorporated in the lending programs and policies and country economic and sector work of the World Bank.

25. This is a large list. It does not by itself imply that all these issues will lend themselves to research or policy analysis. Nor does it mean that basic needs concern should dominate all priorities of research and policy work. What it does bring out, however, are the key areas where further work is necessary before operational conclusions can be drawn. Our present proposal is that these ideas should be discussed further within the Bank staff and with senior management, in the light of which a detailed work program for the next phase should be prepared.

26. This work program will have three components:

- a series of policy papers on various aspects of the strategies needed to meet the objective of basic needs. The titles, outlines and schedule for the preparation of these policy papers will be submitted to the President for approval by the end of October, after discussions have been held with the relevant departments.
- a proposal for a country basic needs mission to study the impact that the adoption of meeting basic needs as the central objective will have on country and international development priorities. The proposal will be drawn up in consultation with the regions and submitted to the President sometime in November.
- preparation of an operational research project, with the help of IDS, Sussex and some other institutions, which would aim at investigating the various functional areas (delivery systems, costs and benefits of a simultaneous attack on various aspects of poverty, participatory planning, etc.). The research project will be submitted to the Research Committee in October.



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## POLICY REVIEW COMMITTEE

PRC/C/77-9

March 31, 1977

### BASIC NEEDS ISSUES PAPER

Attached is a copy of the "Basic Needs Issues Paper" prepared by the Policy Planning and Program Review Department. While the authors of the paper benefitted from the views and comments received on some earlier drafts, the paper essentially represents a point of view that is still in the process of formulation. The paper is being circulated at this stage for your information and comments, which should be communicated to Mr. Paul Streeten, Room D-446 (ext. 4544).

Shahid Javed Burki  
Secretary  
Policy Review Committee

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BASIC NEEDS: An Issues Paper

Policy Planning and Program Review Department

March 21, 1977

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## BASIC NEEDS: An Issues Paper

### I. Introduction

1. The purpose of this paper is to demonstrate, first, the need for a development strategy aimed directly at the abolition of absolute poverty within a short period of time and, second, to spell out the main elements of such a strategy. After sketching, in very broad terms, some of the conceptual and operational issues involved in a basic needs strategy, the paper provides some very rough orders of magnitude of the number of people who suffer basic forms of deprivation in the developing world. Finally, the paper describes the analytical work and country studies that should be undertaken to give operational content to the concept of basic needs.

### II. From Growth to Basic Needs

2. In spite of the current prevalence of gloom, the development efforts of the last twenty-five years have been highly successful by conventional and historical standards. After centuries of stagnation in the Third World, income per head has roughly doubled since 1950. And behind the statistics there is real development, reflected not only in factories and dams, but also in falling infant mortality and rising literacy and life expectancy. International development assistance has contributed to this achievement. Statistically, about 10% of investment in the developing countries in the last ten years has been financed by aid receipts.

3. The pessimism prevails, however, because economic growth appears to have done very little for the poorer half of the Third World's rapidly growing populations. For what they are worth, the data<sup>1/</sup> and impressionistic evidence suggest that the poor in some countries, mostly smaller ones,

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<sup>1/</sup> The data are very unreliable, particularly those for the rural and "marginal" urban populations, where non-monetary, non-recorded activities prevail. In addition, there are theoretical problems in comparing incomes between persons, groups of persons and over time. Consider the situation in Sri Lanka. F.L.H. Lee (in Griffin and Khan, Poverty and Landlessness in Rural Asia, forthcoming) argues that if trends in consumption expenditure, prices and real wages are taken into account, the level of living of the poor does not show the rise indicated by the data in H.B. Chenery, M.S. Ahluwalia, C.L.G. Bell, J.H. Duloy and R. Jolly, Redistribution with Growth (London: Oxford University Press, 1974). The controversy illustrates the unreliability of the data and the need to take into account changes in relative prices.

are better off: Taiwan, Singapore, Hong Kong, Sri Lanka and the Caribbean are examples. In Brazil, their real income per head is estimated to have grown by less than 1% in the sixties, while that of the richer half by over 30%. In almost all the large, poor countries of Asia (India, Pakistan, Bangladesh, Indonesia and the Philippines), there has probably been stagnation or decline in the living standards of the poorest 20 to 40%. In absolute numbers, there are many more poor, though the proportion of the poor in the total population may have declined.

4. The realization that growth was contributing little to the alleviation of the misery of the masses of poor people led to an emphasis on employment and to an attack on inequality in the distribution of income and wealth.<sup>1/</sup> The ILO initiated work on strategies with an explicit focus on employment, and the Bank supported emphasis on redistribution with growth. These approaches meant major conceptual advances in development analysis and policy but they have not gone far enough in attacking absolute poverty directly.

5. Unemployment and underemployment were only a small part of the problem. The trouble was not so much absence of work, as unremunerative work. Indeed, only those who had some other means of support could afford to be unemployed. In a market economy, the command over food and other necessities of life by the poor depends on the value of the goods and services they produce and sell.

6. "Imperfections" stood in the way of an improved allocation of resources, with benefits to the poor. In the towns, access to jobs in organized industry was restricted, so that the majority had to eke out a miserable existence by work of low productivity in the "informal" sector. In the countryside, where land ownership is highly concentrated, the landless laborers, the sharecroppers, the suppliers of direct services and those with only tiny plots of land were denied access to the resources that would have raised their productivity and income. Lack of access to productive assets, low wages and rapid population growth kept their earnings low. It was not growth as such, but the structure of ownership and power, and the policies pursued by the governments, which prevented the poor from benefiting from growth.

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<sup>1/</sup> These aims were, however, contained in some earlier plans and strategies. One of the first papers, with an explicitly stated objective of providing a minimum level of living for the masses of poor people by the end of the Fifth Indian Five Year Plan (1975-76) was produced in 1962 and the Fifth Plan incorporated a minimum needs program. In spite of the identification of the problem, success was elusive.

7. Redistribution with Growth<sup>1/</sup> (RwG) has proposed four strategies, of which two involve the redistribution of assets in order to make the poor more productive. One involves redistribution of investment out of incremental GNP, the other redistribution of the existing stock.

8. The investment transfer to public investment from incremental GNP would raise the consumption of the poor by 23% after 40 years, compared with what it would otherwise have been (the "Basic Solution"), that is to say the rate of consumption of the bottom 40% would accelerate by 0.5% per year. At income levels of \$200, this is \$1 per year.<sup>2/</sup> If we accept recent findings by Griffin and Khan that for a wide range of countries growth was accompanied probably by increasing absolute poverty of the bottom 40% and certainly the bottom 20%, the need to redistribute through growth in order to meet basic needs is considerably increased, though in no way made more feasible. It is understandable that the modesty of the result has led some to call for a redistribution of the existing stock of assets.

9. Both employment-orientation and redistribution with growth have correctly emphasized the need to raise production by the poor by raising demand for their goods and services, by improving their skills, and by raising their productivity. These are necessary conditions for eradicating poverty, but for three reasons they are not sufficient. First, measures (like raising the prices of agricultural products or introducing more labor-intensive techniques) have often not achieved the intended results, but only led, in the final incidence, to a return to the initial income and power distribution. (E.g., higher prices for agricultural products led to higher industrial wages, which were passed on to higher prices of the products the poor farmers bought; or lowering of the real wage rate has encouraged the introduction of labor-intensive techniques without expanding employment more than proportionately.)

10. Secondly, critical social services have been neglected on the ground that they are of undefinable value to GNP. The link between government expenditure devoted to social services meeting basic needs, intended to benefit the poor, and the accrual of benefits to these poor has been tenuous and procedures to strengthen it have either not been explored in sufficient detail or, when identified, not implemented.

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<sup>1/</sup> Ibid., p. 1.

<sup>2/</sup> Since the investment transfer is carried out only over 25 years, the difference after 20 years would, however, be 34%.

11. Thirdly, the economic emphasis has tended to lose sight of the ultimate purpose of the policies, which is not only to eradicate physical poverty, but also to provide all human beings with the opportunities to develop their full potential. The demand now is to put man and his needs at the center of development. If this is done, "basic needs" becomes an illuminating organizing concept, which throws light on a whole range of other issues. It is these three reasons that warrant a further evolution of development policy.

### III. Definition of Basic Needs

12. The purpose of development is to raise the sustainable level of living of the masses of poor people as rapidly as is feasible and to provide all human beings with the opportunity to develop their full potential. This implies (a) meeting the basic human needs of the poorest people in the world, and (b) establishing a national and international framework for sustained and self-reliant development. "Feasibility" points to the limits of achieving the eradication of poverty in the near future. This paper is concerned largely with (a), but the requirements of (b) constitute constraints on the period over which, and the costs at which, basic human needs can be satisfied. On the other hand, it is difficult for a malnourished, rapidly growing population in ill health to make progress towards sustained development, so that (a) is also a condition of (b). The aim of a basic needs strategy, is, then, to increase and redistribute production so as to eradicate deprivation that arises from lack of basic goods and services.<sup>1/</sup>

13. In defining the package of basic needs, we face three difficulties: variations in standards, differences in social objectives and the problems that arise in ranking basic goods and services.

14. First, there are no objective criteria for defining the contents of a basic needs bundle. While certain minimum physiological conditions are necessary to sustain life, basic needs vary between geographical regions, climates, cultures and periods. Even such a basic requirement as nutrition for the same sex, the same age and the same activity varies between different people. Housing requirements also show wide variations and so do all other basic needs.

15. Second, on any reasonable interpretation, there is not a single level of basic needs but a hierarchy. At the lowest level, basic needs are those that have to be met for bare survival. Since anyone falling below this level dies (by definition), a measure of poverty that would count the heads of those below basic needs would, on this definition, always be zero. At the next level, basic needs may be defined as those that have to be met for continued survival and comprise a minimum of food and water, protection from fatal diseases and adequate shelter. At the third level, the satisfaction

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<sup>1/</sup> More formally, the aim is to increase and redistribute consumption so as to maximize the present value of welfare, with a strong weight given to the consumption of the poor, discounted at a rate which gives considerable weight to the near future, subject to at least maintaining the satisfaction of basic needs indefinitely.

of basic needs covers continued productive survival and in addition protection from debilitating diseases, more food and some education. Finally, certain non-material needs may be added, like participation in making decisions affecting one's life and work, certain basic human rights, and the relative component of poverty (relative to the average income).

16. In the light of this hierarchy, societies can define their own basket of basic goods and services. The list of goods included and the quantities in which they are to be consumed would differ according to the society's objective: a "continued survival package" would be more modest than a package for "productive survival." The bulk of the poor in the developing countries live in the countries faced with the immediate task of providing goods and services to enable all their people to survive decently, and some of them to survive productively.

17. Third, and finally, no matter what the objective of the society and what the corresponding basket of basic goods, there are certain conceptual difficulties in listing precisely the items making up such a basket. We cannot ask individuals to order these items according to the priority they attach to them because all actual choices are incremental - more or less extra food compared with more or fewer clothes - and individuals do not assess and compare the total value to them of food and of clothes. The problem is rendered even more difficult by the consideration that individual ordering would be an inappropriate indicator in the presence of consumption externalities. One way out of this conceptual impasse is to identify a core of basic needs. The emphasis on a few needs does not mean that others are neglected. It does mean that at the level of income required to meet the core needs, the households would also satisfy other basic needs. A definition of core basic needs in very poor societies proves to be surprisingly robust, so that counting deficiencies for different items of the basket yields approximately the same number of people.

18. Without minimizing the conceptual problems involved in identifying the items that should be included in the basket of basic needs and the quantities in which they should be consumed, it is possible to focus on a core of basic needs for planning purposes. As shown below in Section V, such a definition of basic needs has important policy implications.

#### IV. Features of a Basic Needs Strategy

19. A basic needs strategy (BN) is not an alternative to Redistribution with Growth (RwG), and other poverty- or employment-oriented strategies, but an extension and a natural evolution.<sup>1/</sup> The objectives and many of the measures are the same. The distinct features of a basic needs strategy can be briefly summarized. (Some of the differentiating characteristics are elaborated in later sections.)

(i) BN gives high priority (attaches considerable weight) to meeting specified needs of the poorest people, not only of defined target groups, and not primarily in order to raise productivity (though additional production is necessary), but as an end in itself. It covers the unemployables as well as the unemployed: the old, the disabled, the sick. While increasing productivity is not the criterion, the basic needs approach often does have this effect and is therefore twice blessed. Thus, the emphasis on the needs of children can be regarded either as a form of long-term investment or as a focus on basic needs. The inclusion of the needs of the old, sick and disabled can also contribute to a reduction in the rate of population growth, as the desire of parents for children as a health and old-age insurance is weakened. Similarly, healthier and better educated women, whether part of the labor force or not, will tend to have smaller families.

(ii) BN, drawing on a body of evidence that the approach is feasible (largely, but not only from the People's Republic of China), stresses the importance of direct efforts to redress absolute deprivation and, as such, has greatest relevance for societies where absolute poverty is concentrated;

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<sup>1/</sup> To attach high priority to basic needs may appear non-controversial, indeed almost tautological. Yet, in fact, there is a clear contrast between a basic needs strategy and (a) the high and accelerated growth strategies of the sixties (often wrongly called "growth maximization"); (b) the Stalinist strategies of 1930-1950 of forced industrialization in the Soviet Union; (c) the strategy of allocating investment resources according to the highest commercial returns, popular not only with Manchester liberals but also with those who stress the difficulties of comprehensive planning. See Richard Jolly, "The World Employment Conference: the Enthronement of Basic Needs," Overseas Development Institute Review, 1976, p. 34.

(iii) BN emphasizes supply management, so that increases in the incomes of the poor are not neutralized by increases in the prices of the goods and services on which they spend these increments, or increases in their productivity are not neutralized by lower money incomes; the basic needs targets are not just desirable consumption goals but carry implications about changes in the structure of production, its growth, and its accrual to the poor;

(iv) The emphasis of BN on restructuring production, not necessarily in response to the preferences expressed by people with very unequal incomes in an imperfect market, implies a substantial role for the government. The satisfaction of basic needs makes demands not only on the provision of goods and services in the market but also on certain public services like education, sanitation, health and water supply; the differentiating and difficult problems of the basic needs approach are, probably, neither conceptual (how do we define and what are basic needs?) nor narrowly economic, financial and fiscal (what are the resources required to meet them?) but are those of access and delivery; the solution of these, in turn, calls for a detailed analysis of institutional structures, including political institutions, and for recommendations on how to change them, in order to secure efficient and lasting provision for basic needs;

(v) BN is sometimes defined in terms of the "characteristics"<sup>1/</sup> of the goods and services (calories rather than rice), rather than in terms of commodities and their prices. Real income comparisons may diverge if measured by these two alternatives, so that in terms of real command over goods two people may be equally well off, whereas in terms of command over "characteristics" they may not;<sup>2/</sup>

(vi) BN implies certain limits to the unrestricted exercise of consumers' demand in the market, though these are not narrower than those prevailing in many mixed economies with indirect taxes, food stamps, social

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<sup>1/</sup> See W.M. Gorman, "The Demand for Related Goods," Journal Paper J3129, Iowa Experimental Agricultural Station, Ames, Iowa, 1956; and K.J. Lancaster, "A New Approach to Consumer Theory," Journal of Political Economy, vol. 74 (1966).

<sup>2/</sup> Many of the less expensive crops are richer in terms of nutrition than more expensive ones, e.g., wheat has more calories than rice. See Mahbub ul Haq, The Strategy of Economic Planning, 1963 and A.K. Sen, Poverty and Economic Development, 1975.



services, advertising, etc. Where income distributions are very uneven, production decisions for basic needs should be divorced from consumers' choices, or, alternatively, these choices should be influenced by indirect taxes and subsidies. A society aiming at meeting basic needs will not welcome the "artificial" stimulation of wants, whether through advertising or demonstration, or the appeal to wants that it does not value, though education (and propaganda) may be used to stimulate "artificially" needs and abstentions that it does value;

(vii) BN can be defined fairly broadly so as to comprise material as well as non-material needs (e.g., diversity of satisfying jobs, self-reliance, access to power, political freedom, national and cultural identity, a sense of purpose in life and work), partly in their own right and partly for the support they give to meeting basic material needs, and therefore stresses motivational, institutional and organizational change as much as narrowly economic reform.

20. The above list is aimed at highlighting some of the distinctive features of a basic needs strategy and necessarily exaggerates some of its differences from alternative development strategies. Ultimately, it can be best seen as a natural evolution in thinking, particularly in the poorest economies where alternative strategies have failed to deliver benefits directly to the poorest sections of society and where constraints are so severe as to recommend such a route if basic needs are to be met soon. The main problems for basic needs strategies are not conceptual, but operational, and it is to some of these that we now turn.

## V. Some Operational Issues

21. The most significant issue in considering a basic needs strategy is the political framework within which it can be successfully implemented. It is quite clear that a major restructuring in political and economic power relationships within a society is a prerequisite for a genuine pursuit of a development strategy aimed at basic needs. Whether this can be managed by most developing countries today, or the extent to which this can be managed in various societies, are some of the most challenging issues we have to face in this field. We have abstracted from the political difficulties in the discussion that follows, not because political questions are unimportant, but because a number of operational issues still remain even if the necessary political prerequisites have been met for the formulation of a basic needs strategy.

22. The basic needs strategy raises at least five sets of operational issues for country policies and for the international community: (i) the domestic and external resources required for meeting the basic needs of a very large and growing number of people in developing countries; (ii) the designing of public services so that they benefit the poor; (iii) the designing of social change and institutions that would allow the poor not only to make their needs known but also to involve them in maintaining the services they need; (iv) the required signals and incentives; and (v) the trade-off between basic needs and other objectives.

### Resources

23. It is possible to calculate growth requirements for meeting basic needs (a) on the assumption of a constant income distribution, (b) on the assumption of domestic redistribution to the poor, or a combination of the two. Obviously, the required growth rate of (a) is considerably higher than that of (b). But, for the poorest countries, even the most radical redistribution now will have to be accompanied by a considerable rate of growth of the inputs required for meeting basic needs on a sustainable basis, in view of their low starting point and the large and growing number of poor people. To (a) and (b) should be added (c), the growth rates required if international redistribution takes place. It is quite clear that many poor countries will not be able to satisfy basic needs on their own within a reasonable time span, without substantial assistance from outside.

24. Most of the components of the basic needs package will draw largely on indigenous resources. This is fairly obvious in the case of construction and public services, but also food that would raise consumption

in scattered rural communities will probably have to be produced locally by these communities. The scope for international contributions to meeting basic needs directly is, therefore, limited. But the inputs into the production of basic goods and services will contain a large, indirect foreign exchange component. In any case, it is the supplement to modest domestic savings that is important. One of the functions of international contributions to meeting basic needs is that the goal may be achieved with fewer domestic and international disruptions.

25. The question of how the contributions should be shared between the rich and the poor nations can best be discussed in the context of a global compact. In order to work toward such a compact, the international community must:

- estimate the quantum of resources needed to meet the basic needs of most of the poor by a specified date;
- indicate the measures required to mobilize, allocate and use these resources efficiently;
- spell out the changes that must be made in the domestic policies of recipient nations in order to meet "basic needs"; and
- indicate the changes that must be made in rich country policies of aid (e.g., a change in their attitude toward financing the recurrent costs of development programs), trade, private investment, research and development, and in other areas.

#### Public Services

26. Even where it is the declared intention of governments that public services should benefit the poorest strata of the society, it is often the most powerful and most articulate - usually people in the urban and in the organized sector of the economy - who take precedence over the needier people. And even where there is a genuine intention to benefit the poor, the incidence of the costs and benefits of public services can be as uneven between regions and between income groups as the distribution of income and wealth. Public services like education, health and housing tend to be not only inadequate in total but also concentrated in the cities and preempted by the middle and upper income groups.

27. Evidence is already available from a number of developing countries to suggest that benefits accruing from social services are as skewed in favor of the privileged groups as is the distribution of income. In fact, in some countries, public sector expenditure has resulted in further worsening

the distribution of national wealth. The objective, therefore, has to be not only an expansion in social services but their redirection in favor of the poorest strata of society through a combination of policies, including income and asset redistribution, restructuring of economic and political power, designing of special delivery systems, etc.

28. The following issues, therefore, deserve attention:

- what types of basic needs should be provided for by the public sector;
- in what ways can the benefits accruing from public services be prevented from being "hijacked" by the higher income groups; and, if the flow of benefits to the privileged groups cannot be prevented,
- in what ways can a part of them be recaptured?

#### Local Participation

29. In order to satisfy basic needs supply management is not enough. The generation and articulation of demand are also necessary. It is in the area of "demand management" that strong cooperative or local community organizations have an important role to play.

30. Even such a simple service as water supply calls for the cooperation of local people. For if the water flowing from standpipes is permitted to drip, the puddles can become the breeding ground for mosquitoes or worm breeders and the benefits are reduced or wiped out. The siting of these pipes and their efficient use depends on local cooperation and on the social changes that ensure it.

31. The success achieved by the Chinese, the Japanese and the Israelis in meeting the basic needs of most of their populations within a brief period illustrates that this goal can be attained in a wide variety of political systems. These experiences also show how important broad-based participation at the local level can be for articulating the demand for meeting basic needs and for the efficient management of the services ministering to these needs. They show that representative local bodies can minimize waste, handle maintenance work and also limit the amount of benefits going to the privileged groups.

32. The following issues are worthy of further attention:

- how can the commitment of local people be mobilized and local participation be secured and strengthened;

- what form of decentralization is necessary for implementing efficiently a strategy of meeting basic needs;
- what impact does a decentralized program for meeting basic needs have on resource requirements; and
- in what ways can local community-based programs be incorporated into national plans and in what ways can these be assisted by international cooperation?

### Signals and Incentives

33. A basic needs strategy will have to use a system of signals and incentives that is different from that of a laissez-faire market system and from that of a centralized bureaucracy. More particularly, the function of prices as signals may have to be divorced from their function as incentives for the allocation of resources, to maintain consistency with basic needs. Some of the issues are:

- To what extent need market signals and incentives be modified or divorced from one another, in order to reflect society's preference for meeting basic needs in the private sector?
- Should there be a reliance on price corrections or direct controls (e.g., the complete prohibition of certain items) to achieve the desired goals?
- How should existing productive capacities, often geared to the demand of the rich, be reoriented towards the needs of the poor?

### Basic Needs and Other Objectives

34. To satisfy basic needs is an objective with high priority, but it is unlikely to be the only objective. Laying the foundations for sustained economic development after basic needs have been met, diversifying the economy so as to reduce dependence on specific products, markets, and sources of supply, the protection of the environment, defence, and other objectives may, to some extent, compete with basic needs. The question then arises:

- what are the trade-offs, if any, between a basic needs program and alternative objectives and policies;
- specifically, what, in the light of the experience of the last twenty years, is the relation between economic growth and a policy of satisfying basic needs?

35. There are no conclusive answers to many of these operational issues. The whole area requires careful review of the experience already gathered and further experimentation. Section VII indicates the work program that will be required to find partial answers.

VI. Quantification of Shortfalls in Basic Needs: Some Preliminary Estimates

36. In order to illustrate the broad dimensions of the problem, it is useful to give preliminary estimates of "shortfalls" in basic needs now being suffered by the poor in the developing countries. Considerable empirical work is required to give national or global estimates with any degree of confidence. What is attempted here is merely a rough order of magnitude to bring out the nature of the problem in somewhat more concrete terms.

37. It will be seen from these estimates, that the requirements for meeting basic needs are modest if compared with total world production -- less than 2% of the world's cereal production would meet basic calorie needs -- and that it is institutional and political constraints, not technical and physical limits, that stand in the way of meeting the basic needs of the poor.

38. If core basic needs are identified as food (calories and proteins), clothing, safe drinking water and shelter, estimates from various sources indicate that, at present:

- 600 million of 1.2 billion people in the poorest countries (with per capita incomes less than \$200) do not eat enough food to meet their minimum daily requirement of calories. Of these undernourished people, some 350 million are children under the age of 15. Nearly 800 million people in these countries receive less than their daily requirement of proteins. This nutritional gap, translated into quantities of food, implies 25 million tons of foodgrain and 2 million tons of animal protein;
- of 300 million people living in urban areas in these countries, over 100 million do not have access to safe drinking water. The number of people in this situation in the countryside is estimated at an additional 700 million;
- over 150 million in the urban areas of the poorest countries have less than satisfactory shelter. No figures are available for the rural situation, but the number of people that are housed below minimum acceptable levels is likely to be <sup>at</sup> less than half the number of absolute poor, or at least 325 million. Thus, perhaps half a billion people in the poorest countries have inadequate shelter.

39. These different estimates of the number of people suffering "shortfalls" in terms of "characteristics" of products - calories, grams of protein, quality of drinking water, square meters of shelter - suggest that for operational purposes the "core of basic needs" is, in fact, a robust concept. The estimated number of people with deficiencies of any of the three items in the "core basket" ranges from 600 to 800 million (Table 1 below).

Table 1

Number (millions) of People Experiencing "Shortfalls"  
for Three Core Basic Needs<sup>a/</sup>

	<u>Population of Poor</u> <u>Countries</u>	<u>"Shortfall"</u> <u>Population</u>	<u>% of</u> <u>Total</u>
Food			
Calorie     )		600	50
Protein    )	1200	800	67
Water         )		800	67
Shelter       )		500	42
Number of Absolute Poor		750	63

a/ These estimates pertain to 1975.

Note: The number of absolute poor, defined as those with per capita income of less than \$75 in 1969 prices, was 750 million in 1975. This estimate has been used by the World Bank for various poverty studies.

Estimates of Additional Incomes to Meet Core Needs

40. The significance of these shortfall estimates can be gauged by applying them to a single country. Bangladesh serves as a good illustration for this purpose.<sup>1/</sup>

1/ Most of these estimates are from A. R. Khan, "Basic Needs: An Illustrative Exercise in Identification and Quantification with Reference to Bangladesh," mimeo, ILO, Geneva, November 1976. ILO is in the process of revising these estimates to serve as background for their forthcoming "basic needs" mission to Bangladesh. Data on Bangladesh are not adequate for a precise estimate of the cost of satisfying the core basic needs of the poor. A rough estimate is presented in Table 2. This will be refined in the future.



- Well over 50% of the population has inadequate caloric intake; over 60% receive less than minimum daily requirement of proteins and the entire population has vitamin deficiencies. In terms of quantities, this translates into about 2.5 million tons of foodgrains.
- At least 20-25% of the population does not have minimum clothing (defined as the level below which a person tends to have an acute sense of shame for lack of adequate "body cover"). This is equivalent to about 100 million square meters of cloth.
- There is piped water in only 30 of the 100 urban centers; at least 40-45% of the population lack safe drinking water.
- Over 70% of the urban dwellings are temporary structures; there are, on average, almost four persons per room. Four-fifths of the urban dwellings have no water connection; 97% have no electricity.

Table 2

Additional Income Requirements for Meeting Shortfalls in  
Core Basic Needs, Bangladesh

(Orders of Magnitude)

<u>Item</u>	<u>Shortfall Quantity</u>	<u>Unit Cost to Consumer</u>	<u>Additional Required Income of the Poor</u> (\$ million)
Food <sup>1/</sup>	2.5 million tons of cereals	\$400 per ton	\$1,000
Clothing <sup>2/</sup>	100 million sq. meter	\$1 per sq. meter	\$100
Water <sup>3/</sup>	Hydrants for 44% of population	Free	--
Shelter <sup>4/</sup>	6.7 million dwellings	\$125 per family per year	\$840
<u>TOTAL</u>			<u>Approximately \$2,000</u>

Notes to Table 2

- 1/ In 1974, the gap between production and consumption was 2 million tons of cereals (Bank Staff Working Paper No. 247, "Developing Country Foodgrain Projections for 1985," Table 14, p. 30). FAO estimates that in 1969-71 the gap between average consumption and needs was 20%. It is inferred from these indications that at least 2.5 million tons of cereal are required to meet the needs of the poor. The purchase price for the poor is assumed to be \$400 per ton.
- 2/ According to A. R. Khan, ("Basic Needs," ILO, Geneva, November 1976, p. 2) minimum clothing is over six square yards per capita per year in Bangladesh. In 1973, average consumption was less than five yards. The shortfall per capita was assumed to be 1.5 square yards, which is 120 million square yards for the entire population. The cost is assumed to be \$1 per square meter.
- 3/ For 1975, WHO (Community Water Supply, A 29/12, Annex 2) estimates that only 56% of the population had reasonable access to safe water (the shortfall was 78% in urban and 39% in rural areas). Capital costs per capita of public hydrants are on average at least \$53 for urban and \$21 for rural water (1975 dollars, based on the Village Water Supply Paper). The cost of installing hydrants is therefore about \$1,318 million. Assuming that annual average costs are 15%, the extra income requirement is \$200 million. It is assumed that the absolute poor will get water free of charge.
- 4/ As there are 80 million inhabitants, there must be 13.3 family dwellings, assuming six people per family. It can safely be assumed that at least 50% or 6.7 million dwellings are below the minimum acceptable level. The cost of the most basic housing projects are \$1,000 per dwelling (Housing Policy Paper) in 1975 dollars. Thus, total capital costs are \$6,700 million. Assuming that annual costs are one-eighth of capital costs, total annual costs will be \$840 million.

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41. Bangladesh's 1975 population was estimated at 78.6 million and its gross national product at \$8.8 billion. As suggested above, some 60% of the population or 47 million people, suffered some form of deprivation. The share of the absolutely poor in total income is estimated at only 30% or \$2.6 billion, giving them an income per head of only \$56. In order to satisfy the three core needs of these people, they must receive on average at least \$43 in additional income. However, since perhaps only two-thirds of the extra income is spent on core basic needs, the absolute increase in incomes may amount to \$65 per capita. If the basic needs target were to be met in the next ten years, within the present structures, this would imply an 8% rate of real growth in the average incomes of the absolutely poor. Meeting the target over a period of 25 years implies a real growth in personal incomes of the absolute poor at the rate of 3.1% per annum. Such high rates of growth in incomes do not seem possible without a fundamental change in development policies.

## VII. Proposed Work Program

42. The Policy Planning and Program Review Department has initiated studies to investigate the issues raised in Sections V and VI above. A number of papers will be produced for the Bank management in the next 6 to 18 months. The following is a brief description of the nature of this work and the papers that will emerge from it.

### Country Studies

43. In formulating country strategies for meeting basic needs, it will be useful to investigate and compare the requirements and experiences of a group of countries. The following typology will be employed:

- countries in which the basic needs of a large proportion of the population are unsatisfied. A subdivision within this group could be between those with potential resources (e.g., Bangladesh and Botswana) and those without (e.g., Lesotho and Nepal);
- countries that have given high priority to basic needs (e.g., Sri Lanka and Tanzania) as well as regions within large countries that have followed specific basic needs programs and policies (e.g., Kerala as against Punjab in India);
- countries that are, after a revolution or war, embarking on development, and may therefore be open to new ideas and welcome cooperation in conducting basic needs studies and implementing basic needs policies (e.g., Angola, Mozambique, Vietnam).

44. Two papers will incorporate the findings from this work. Drawing on existing material, the first paper, due in June, will make a comparison of policies and their impact on basic needs in Kerala, Punjab and Sri Lanka. The second paper, planned for mid-1978, will compare the experiences of Kenya, Tanzania and Somalia. This paper will incorporate the results from field work to be undertaken in cooperation with the Institute of Development Studies (Sussex) and ILO. These papers will deal, inter alia, with the following issues:

- economic issues: the relative importance of conditions for income generation, demand, and "demand management" compared with conditions for production (including distribution and foreign trade) and "supply management"; the relative importance of goods and services bought in the market and those provided by the state;

- linkages: the extent to which satisfying one set of basic needs (e.g., basic food), whether through the market or by public services, is linked to satisfying another set of needs (e.g., elimination of gastro-intestinal diseases, or the nutrition, health, family planning package);
- statistical issues: the extent to which an appropriate set of economic and particularly social and human indicators are essential for implementing and monitoring a basic needs strategy;
- the relation between economic and social indicators of welfare;
- political issues: the role of the state, the relative importance of central and local government, the degree of independence of state action from other power structures and the choice of sequences to build up political pressures for basic needs;
- the political parameters for the successful implementation of a basic needs strategy;
- social issues: the social organizations and social changes at the local community level necessary for implementing a strategy of basic needs;
- administrative issues: the administrative problems of making "delivery systems" more efficient, particularly, but not exclusively, for non-marketed goods and services;
- international issues: the implications for international aid, trade, investment and migration policies.

#### Global Estimates of Shortfalls and Targets for Basic Needs

45. Shortfalls will be estimated first for major countries, then for regions and finally for all developing countries. While these will vary from country to country and region to region, it is possible to indicate targets for such core basic needs as food, safe water, cloth requirements for protection and social standards of decency, square meters per person for shelter, etc. Standards have been developed by various agencies in the UN system and these will be applied to different countries.

46. Next, estimates will be made of the minimum personal income, given the prices of the privately consumed items, that would be required to buy a specified collection of items included in the basic needs basket.

47. Finally, estimates will be made of the sectoral investment and recurrent expenditure, and, for public services, specification of the delivery systems, required to hit the target for both private and public components in the basic needs package in a specified period.

48. Exercises in global modelling are useful in providing orders of magnitude, in bringing out the relative importance of different variables and constraints, and their relation to one another (e.g., physical and technical constraints compared with social and political obstacles), and in creating pressures for the collection of relevant data.

49. A paper, to be delivered to the management in June 1977, will summarize these findings. The paper will focus primarily on the following:

- extent of "shortfalls" in meeting basic needs in different groups of countries;
- income growth rates required to satisfy the marketed components of these needs, on different stated assumptions;
- public sector investment and recurrent expenditure requirements for meeting basic needs within a specified period of time; and
- the sharing of contributions between developed and developing nations, and among developed nations.

PStreeten/SJBurki  
March 21, 1977

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara  
Through: Attila Karaosmanoglu, Acting Vice President, DP *AK*  
FROM: Mahbub ul Haq, Director, PP&PR *mu* DATE: February 28, 1977

SUBJECT: Issues Paper on Basic Needs

1. Attached is a draft of the first paper on Basic Needs that we promised you. It has been prepared by Paul Streeten and Shahid Burki following the discussions within the DPS over the last two months. Since the area of basic needs is relatively a new one, it has not been possible to resolve all the differences and controversies which arose during the course of these discussions. You will be receiving by next week some memoranda from those in the DPS who still have some fundamental reservations about the analytical significance of the concept of basic needs or about the chances of its practical implementation. This should help sharpen the issues before the next stages of work are undertaken.

2. The objective of this paper is essentially a modest one: to clarify some of the conceptual and operational issues involved in pursuing a Basic Needs Strategy and to indicate the work program that would be necessary to define relevant country strategies and to determine global shortfalls in basic needs and corresponding investment estimates to remove these shortfalls. It has been produced in the belief that while the basic needs strategy may not represent a major analytical breakthrough, it has sufficient operational significance to merit further careful analysis.

3. We are still a little uncertain as to how much of the work program indicated in this paper can be completed by June, dependent as it is on the availability of relevant data and country experience, but we shall attempt to present as much as is possible within this time constraint while pursuing some of the issues in much greater detail subsequent to June.

cc: Mr. Chenery (o/r)

Attachment