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Urban Poverty Program - General, 1976 (Aug. Dec)



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URBOR - Urban Poverty Program - General - 1976 - August / December

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JAN 05 RECD

## OFFICE MEMORANDUM

TO: Mr. Edward V.K. Jaycox, Chairman, Urban Poverty  
Task Group

DATE: December 23, 1976

FROM: E. Bevan Waide, Chief Economist, ASNVP *EW*

SUBJECT: Urban Poverty Program Implementation

1. Having come to this subject after making policy prescriptions for the urban poor of Northern England, I found it of great interest. The background papers and your draft "Status Report and Request for Confirmation of Certain Plans" advance a variety of new ideas, yet I am uneasy as to whether the steps that have been taken or are recommended are along the right lines. The thrust of this note is to suggest that (if I have stated the Bank's objectives correctly) it would be better to approach the joint issues of (a) country strategy for relieving urban poverty, and (b) an urban poverty leading strategy for the Bank, from different starting points from the ones you propose.

A. The Bank's Objective:

2. I take it that, in accordance with the spirit of Article I (iii), the Bank is committed to the view that increasing welfare in its member countries requires that the goal of more equitable income distribution be pursued, along with income growth; a country's development strategy should have such goals, and if redistribution measures are imperfect, as is likely, the lot of the poor should be improved by consciously seeking to improve their output and employment prospects. The Bank is already using its resources to help member governments achieve such goals (where acceptable to the Government and technically feasible) in rural areas, and wishes to be sure it is doing the same for urban areas.

B. Management Decisions for the Bank:

3. If this is the goal then Bank management has presumably to answer four questions:

- (a) is country X pursuing a strategy which is likely to result (along with the achievement of other objectives) in a reduction in the numbers of or increases in incomes of the urban poor (compared with what could otherwise be the case); and if so,
- (b) is the Bank making a reasonable contribution to that strategy given the country's own efforts and those of other donors? If the answer to (a) is no, then
- (c) does the Bank know of a better strategy and is it using its best efforts to have it adopted? If the answer to (b) is no, then,

- (d) what increases in the lending or technical assistance effort should be made?

(a) Assessing the Country's Strategy

4. Measuring progress, or the likelihood of progress, means identifying (i) the numbers of urban poor, i.e., the "target group", and (ii) their incomes and assets, and assessing whether policies and programs now in use or planned will reduce (i) and/or increase (ii). The size of the target group has already been estimated, but so roughly <sup>1/</sup> that as an indicator of progress it will produce valid results only over a long interval: Incomes of the target group - the best indicator of progress - have not been measured, but they will need to be, city by city, using adequate existing techniques for making replicable household sample surveys of money and non-money income and assets. If the Bank is serious about monitoring progress, then ultimately it will be essential to have the incomes of the poor measured, and not only their numbers or the proportion they form of the urban population.

5. Assessing whether a given strategy will succeed in helping the urban poor is a complex question. The answer will differ country to country and even from city - region to city - region. It may be that a labor-intensive agricultural and public works strategy is the best way of helping the urban poor, over time. The political economy of urban areas also cannot be ignored: it might be necessary to change the workings of the urban labor market, by reducing the relative bargaining power of organized wage-earners through collective action on the part of the urban poor. This cannot easily occur if urban work-force can be supplanted by migrants from rural areas - which is a further reason for linking a strategy for the urban poor with that for the rural hinterland (which, in the case of a small nation, could be the whole country). These arguments could be supplemented at length, but for the present the point is that any successful strategy for tackling urban poverty is likely to have a variety of related components, and maybe we need to be sure we understand what these are before committing additional Bank resources.

(b) Assessing the Bank's Contribution

6. Your memo recommends that the decision rule be: the (\$)

<sup>1/</sup> for example, given the large numbers of people in South Asia just above or just below the poverty cut-off point, a small measurement error gives magnified differences in numbers. ✓



proportion of urban poverty projects in urban lending should be at least as great as the proportion of the urban poor in the urban population.<sup>1/</sup> Estimates of the latter ratio turn on the definition of "urban poor" and "urban population" which are imprecise. The former ratio depends on the definitions of "urban poverty project" and "urban lending". "Urban lending" does not seem to be defined but earlier papers suggest that it comprises the proportion of the cost of all projects corresponding to the benefits accruing to urban dwellers, directly or indirectly, and whether as consumers or producers. This definition is not compatible with caveat (i) below. The definition of an "urban poverty project" is discussed at length, and emerges as any urban project in a given country whose capital/employment ratio is less than twice the national GDI/labor force ratio. (Why twice?) The capital/employment ratio is to be calculated by discounting costs, and fifteen man-years of employment generated, respectively, at some (unspecified) discount rate. A disarming caveat is entered to the effect that if this arbitrary ratio does not produce the desired end-results, the ratio will be dropped or supplemented.

7. The recommendations are surrounded by various other caveats: (i) the urban poverty program should not compete for Bank resources with the rural development effort, (ii) the target implied by the decision rule should not "overly constrain" programming at the country or even Regional level, but be a Bank-wide target, and (iii) urban poverty projects must meet all existing criteria by which Bank lending is justified.

8. Caveat (ii) makes this proposed decision rule inoperable for any one country or Region. If other donors, or the country itself, are making reasonable efforts in this field, then clearly the Bank need not edge its way in. A judgment on this, as for every other sector of operations, can be made in the course of normal country programming, given the results of assessments under question (a) above.

9. As a decision rule for the Bank as a whole, its reliance on various arbitrary measurements and the lack of demonstration that either borrowers as a group or the Bank as an institution would be better off if the target were to be achieved, makes it of limited value.

(c) Is there a better strategy for the urban poor?

10. The arguments of paragraph 5 above make it pretty clear that a little caution is in order before offering prescriptions. Although the rule recommended seems to be the best of those offered (see attached memo by Per Ljung) it is always doubtful whether the application of a single search criterion - in this case, spread capital around and reduce capital/labor ratios - will produce the best strategy even if the technological options are open (which has to be proven). For example,

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<sup>1/</sup> Urban projects are estimated to amount to about one-third of 1977-81 Bank lending, and the urban poor to be about one-third of the borrowers' urban populations; so the urban poverty lending target would amount to around a tenth of Bank lending.



if management rather than capital is the scarce production factor, high capital-intensity may be warranted. Such a decision rule can also make it difficult to incorporate external economies and multiplier effects into the analysis; the long-run effects on, say, savings, or institution building, or technological innovation, or output growth as opposed to immediate employment creation, or linkages may tend to be underplayed. ✓ *come in!*

11. There is also a methodological objection in that although application of the Squire/van der Tak micro-economic methodology should improve the choice of, or design of an individual project, there are theoretical reasons for doubting whether a large set of projects, so chosen, would be the best set to achieve the long run goal of relieving urban poverty. ✓

(d) How could the Bank's lending or technical assistance program be improved?

12. The answer to this is subject to the same arguments as (c) above. There is a sound case for choosing, ceteris paribus, projects with a low capital/employment ratio, but good project selection and the ability to make a developmental contribution through a lending operation would require enough background knowledge of each city in the context of its hinterland, to answer question (a). That would use a lot of staff time.

C. Conclusions:

13. In sum, the proposed approach, because of the use of excessively simple and arbitrary indicators and decision rules in complex situations seems likely to give the Bank a management tool, containing the misleading assumption that attainment of the chosen lending targets would necessarily contribute to reducing urban poverty. It also would give the Bank staff and borrowers insufficient guidance in strategy or project design. This in no way implies disagreement with the Bank's objective as presumed in paragraph 2 above. The way ahead, though, would seem to be to follow through the earlier arguments and design concentrated urban poverty lending programs, in the light of adequate knowledge of appropriate strategies, in a small number of chosen city regions, and to monitor progress carefully. The setting of Bank-wide lending targets could follow in the light of experience. This would also enable experience to be gained (as your memo acknowledges) in the design of lending channels to labor-intensive projects. *OK. Let's do this too.*

Attachment

cc: Messrs. Stern, Blobel (o/r), Alisbah, Gilmartin, Picciotto, Rajagopalan, Pilvin/Jansen, van der Mel, Ljung, van der Tak  
Regional Chief Economists  
Urban Poverty Task Force



## OFFICE MEMORANDUM

TO: Mr. R. Picciotto, Director, ASPDR

DATE: December 22, 1976

FROM: P. Ljung, ASPIR *Pj*SUBJECT: Comments on "Urban Poverty Program Implementation" by Jaycox

1. Ahluwalia, Pyatt & Little <sup>1/</sup> propose two search criteria:

(a)  $L\bar{w}/V \geq a$

(b)  $V/K \geq b$

where  $L$  = Total employment

$\bar{w}$  = "Cut-off" wage (national parameter)

$V$  = Value added

$K$  = Capital

$a$  = Constant

$b$  = Constant

2. Jaycox & Stone <sup>2/</sup> propose only one search criterion:

$$K/L \leq c$$

where  $c$  = Constant

3. By rearranging and substituting we find that all projects fulfilling criteria 1 (a) and 1 (b) also must fulfill the following criterion:

$$K/L \leq \frac{\bar{w}}{a \cdot b} \quad (= c?)$$

4. Consequently, if the value of  $c$  is chosen in a suitable manner, all projects/sectors that fulfill criteria 1 (a) and 1 (b) will also fulfill criterion 2. However, the opposite is not always true. The two different formulations are shown in Figure 1.

5. What surprises me in the memorandum by Ahluwalia et al is that they have not drawn the full conclusions from their argument about social analysis. They state that the  $V/K$  ratio is close to the

<sup>1/</sup> "Urban Poverty Program Implementation", memorandum to Mr. E.V. Jaycox from M.S. Ahluwalia, G. Pyatt and I.M.D. Little, dated November 4, 1976.

<sup>2/</sup> "Urban Poverty Program Implementation", memorandum to Regional Urban Poverty Program Coordinators from Edward V.K. Jaycox, dated December 6, 1976.

rate of return when the shadow wage-rate is zero. If we assume that all benefits accrue to the private sector in a relatively simple manner, we get the following measure of social benefits (disregarding effects on public income):

$$B = L\bar{w} * \alpha + (V - L\bar{w}) * \beta$$

6. If we disregard distortions in economic prices, we can establish a welfare criteria that is close to the social rate of return:

$$W = \frac{L\bar{w}}{K} * (\alpha - \beta) + \frac{V}{K} * \beta$$

Rearranging this, we get the following welfare index:

$$W = (\alpha - \beta) * \frac{V}{K} * \left( \frac{L\bar{w}}{V} + \frac{\beta}{\alpha - \beta} \right)$$

7. This is a hyperbolic function of the same general shape as criterion 2 (see figure 2). Consequently, if we are searching for a criterion that closely approximates a social welfare function, the formulation by Jaycox & Stone should be accepted.

8. I totally agree with Jaycox that the movement into labor intensive sectors is more important than finding the right labor intensity in each sector (Jaycox, Para. 14). Furthermore, within a sector there is usually a large variation in capital intensity (typical example: textiles), but the out-puts of the various sub-sectors are usually not substitutes. Consequently, if Ahluwalia's approach is followed, we would have to establish criteria for each sub-sector (for example: hand looms).

9. In conclusion: As a rough search criterion for urban poverty projects, I think that the one proposed by Jaycox & Stone is the most suitable. However, I doubt that any of the criteria are useful for ex post application. If they are used at an early stage for project identification, they might have some merit, but don't we know a priori that nuclear power plants are less labor intensive than handlooms? I think that a number of other considerations, such as the institutional set-up for assistance to a certain sector, are more important for a proper project identification.

c.c.: B. Waide, V. Rajagopalan, M. Nguyen



Figure 1. Comparison between various search criteria

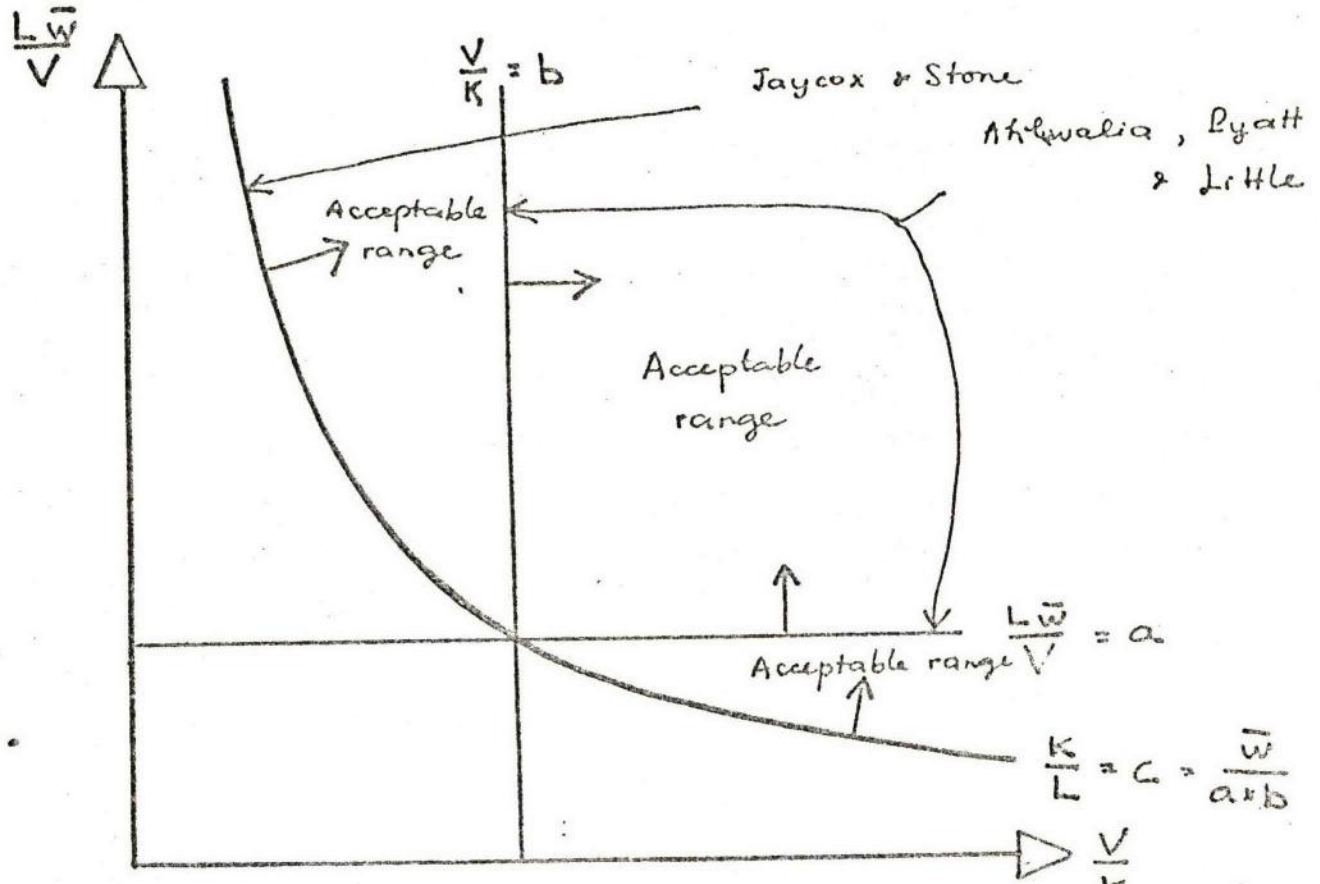
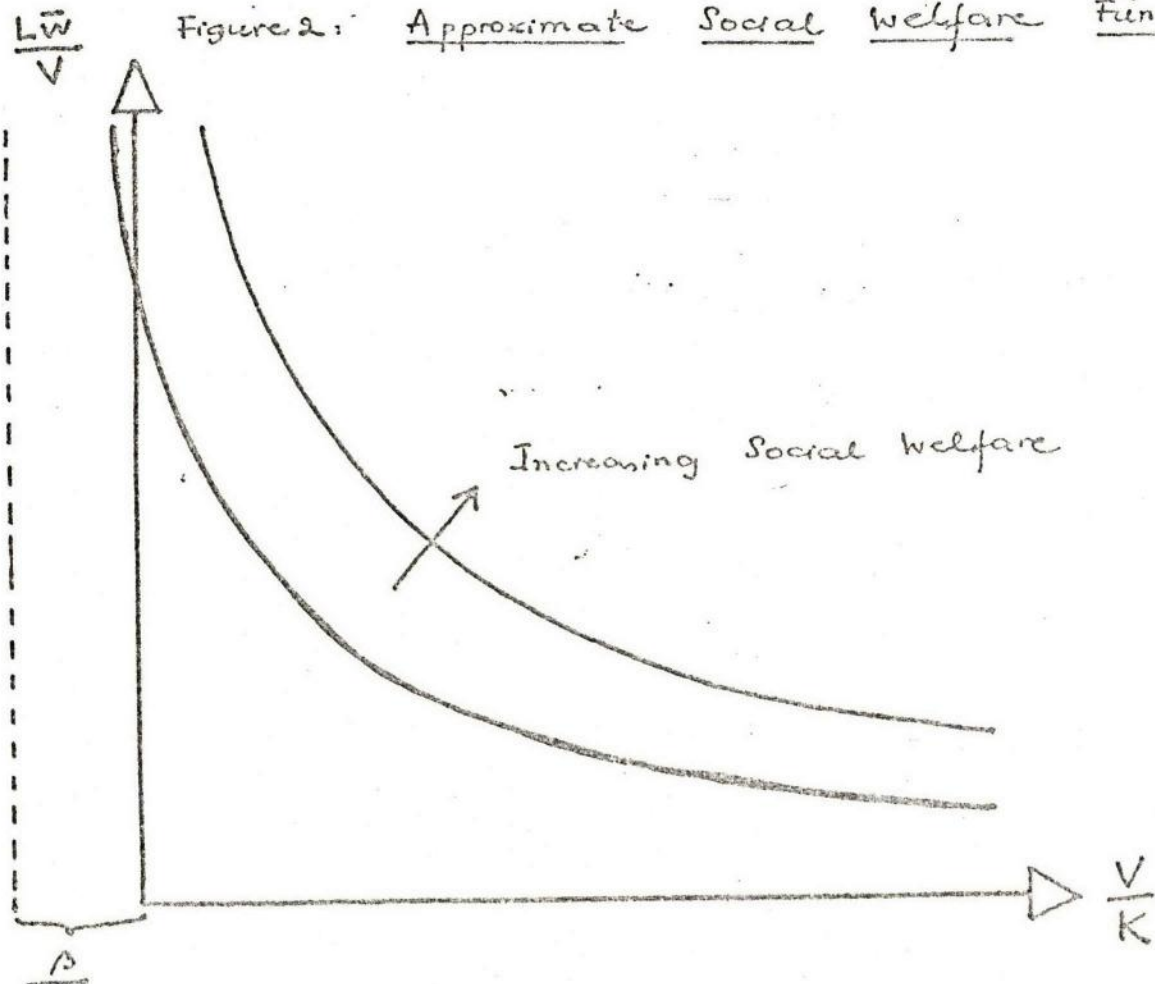


Figure 2: Approximate Social Welfare Function



## OFFICE MEMORANDUM

TO: Mr. E.V.K. Jaycox

DATE: December 23, 1976

FROM: Willem C.F. Bussink *WCB*SUBJECT: Urban Poverty Program Implementation

1. I refer to your draft memo to OVP's on the above subject. In this memorandum I am reiterating briefly some of the points which have already been made informally to you by those in the Region who have been involved in the discussions thus far. I am also mentioning some further points which I believe are likely to be made -- among others -- once the whole subject has been fully considered by the RVP and others in the regional office. I am grouping my remarks under general comments, reactions to specific points in your memo (including confirmations requested) and proposals for a more country-specific approach.

General Remarks

2. We do not in the slightest degree question that the Bank should make maximum efforts to get the developing countries to attack the problem of poverty, urban or rural, and to shape their development efforts in such a manner as to achieve, not only the highest possible growth of aggregate income and welfare, but also the greatest possible degree of increase in the income and welfare of the poorer sections of their people. We also fully recognize that given this objective the Bank management and staff need to identify what specific investment or other actions in the developing countries contribute to the achievement of this objective and, furthermore, need to be able to measure the extent to which such specific actions are in fact being taken. However, measuring the extent to which Bank loans are urban-poverty-related is by no means synonymous with measuring the extent to which our borrowing countries are taking specific actions to reduce urban poverty, nor is it even more than a partial and crude indicator of the extent to which the Bank is contributing to such action on the part of the countries. Very simply, the Bank lending program in any country is rarely a mirror image of the country's investment program. The fact that some proportion of our loans is urban-poverty-related does not prevent the country from devoting a much larger or a much smaller proportion of its resources to the relief of urban poverty. Neither does an increase in that proportion in our loans in any way guarantee that the proportion of the total resources available to the country devoted to this purpose increases. This fact suggests that we need to focus on the country efforts and not on our lending operations if we are to judge and measure what is being done to meet the basic objective. It suggests also that we run the risk of deluding ourselves and endangering our credibility if we naively take and represent our lending to be a true proxy for action by and in the countries. We can, we suppose, take some comfort from knowing that the resources we provide are in some growing part devoted to the objective, but we should not misunderstand or misrepresent the significance of this nor, and this is even more important, be satisfied, whatever these lending figures show, that they represent an adequate effort on the part of



the Bank. Should we take great satisfaction from the fact that we have financed a slum improvement program in some city while we passively observed the simultaneous expenditure of much greater resources on the building and servicing in the community of large numbers of \$200,000 homes?

3. There is also the danger of overemphasis on the direct and short-term readily measurable consequences of investment and neglect of the dynamic and sometimes longer-term effect on urban (or rural) poverty of particular investments. To illustrate with an extreme, should an investment (e.g., in petroleum production) which will yield fantastic returns which can be saved and invested to relieve urban poverty (with a little time-lag) be eschewed in favor of one which more directly and immediately but to a much more limited extent relieves poverty? In other words, while the idea that one has to spread investment resources has a certain intuitive appeal, care should be taken that this does not occur at the cost of weakening activities which provide the primary impetus to the economy. This, as well as the preceding point, underscores the need for country-specific analysis.

4. Your memo proposes criteria to distinguish urban poverty lending, and also discusses the urban poverty lending program for 1977-1981, suggesting that this program has been identified on the basis of the proposed criteria. However, it looks to us as if the Regions have, on their own, gone through a very rough labeling exercise, applying criteria loosely and differently, and that the results are therefore not very meaningful.

#### Specific Comments

5. (Para 7) We agree to the proposal to use the present poverty estimates.<sup>1/</sup> I do not think that "upgrading" the data can be given even "some" priority. On the other hand, "updating" (if new data become available) should of course be done.

6. (Para 9) We agree with the approach taken toward the provision of basic urban services. We are unsure about projects which provide low cost basic mass consumer goods. This opens the door to virtually any project which involves greater efficiency in the production of such goods or services and furthermore is dangerous as long as there is no specific prescription on how to take account of major indirect effects (e.g., a negative effect on employment in the "informal" sector if economies of scale are realized through mass production of consumer items).

7. (Paras 10-13) We continue to have major problems with the employment-cum-capital-cost part of the proposed approach. I have not yet met anybody in this Region who quickly grasped the logic or the meaning of a ratio of total investments to the total labor force. It seems that there is only a tenuous connection, if any, between this criterion and the actual amount of resources available for new job creation. We find it very difficult to accept a criterion that does not take into account the number of new jobs to be created, either to reduce existing un- or underemployment or to absorb current labor force growth. We feel it equally difficult to ignore the fact that

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<sup>1/</sup> To me, the language of paras 4 and 6 does not seem to do full justice to the large contributions which at least this Region made to the estimates of poverty lines and numbers in poverty.



structural changes required may dictate allocations very different from those characteristic of the past in any one country and very different among countries.

8. (Para 15) The rationale for the derivation of the target urban poverty lending is unclear. In principle, it should be recognized that no "scientific" or "objective" criteria exist, that any target is therefore in essence arbitrary and can (or should?) be set arbitrarily. If that is done, much work to determine (also rather arbitrarily) how much lending is urban, can be avoided. A target of 10% of total Bank lending seems as appropriate as any other.<sup>1/</sup>

9. (Paras 16, 17) While, formally, only one Bankwide target is being proposed, there is a strong suggestion that there will be, in fact, regional targets. Will the next logical step not be country targets? And would it be reasonable to derive these on the basis of general criteria? Our feeling would be that this would be highly inappropriate, but that, on the other hand, a country-specific approach which would derive country-specific goals and targets would be much more productive than any general targetsetting as now proposed.

10. In view of the above, this Region is now considering to propose to make a concentrated effort on one or two countries in this Region over the next 18 months. As a first step, "poverty briefs" should be prepared for these countries, discussing the extent, distribution and main causes of poverty, the Government's attitude toward the poverty problem and its ongoing policies and programs to deal with it, changes which appear possible and necessary, and the Bank's possible role in alleviating poverty. The briefs would propose a specific Bank operational program on these subjects for the next several years, as well as methods through which it could be effectively monitored. Plans for specific poverty-related lending, and its rationale in a wider country context would form a specific part of the proposals and would also be monitored. This Region is considering to include resources for these activities in its FY78 budget, but clearly substantial support from CPS/DPS will also be necessary if this experiment with a country-specific approach is to succeed.

cc: Messrs. Bell, Kirmani (o/r), Votaw, P. Hasan, Howell, Sandberg,  
Hawkins, A. Stone

WCFBussink:ec

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<sup>1/</sup> Probably the proportion of rural lending in the total will tend to remain fairly stable in future, and one does not need to worry too much about encroaching on rural lending.



## OFFICE MEMORANDUM

TO: Mr. Edward V.K. Jaycox

DATE: December 23, 1976

FROM: Hans Pollan SUBJECT: Urban Poverty Program (UPP) - Your draft of December 6

1. I refer to the draft status report which you propose to address to Mr. McNamara.
2. As you know, the essence of this paper particularly the criteria concerning the classification of poverty target groups and of urban poverty projects have had considerable discussion. On review within the Region, we have concluded to go along for the presentation purposes that you have in mind, the use of the criteria as outlined in paras. 13-16 of your draft, provided however that it is clearly understood that these criteria are not to be interpreted as an instruction or as a constraint.
3. Secondly, as to the illustrative EMENA program in the draft, I need to emphasize that the UPP element, resulting from the recent data gathering exercise organized by Alistair Stone, is quite modest. A similar exercise which we had undertaken in the Region in the spring (vide my memo of May 11 to you) came approximately to similar conclusions regarding aggregate urban-related lending in EMENA. At that time, however, we were able to identify a UPP element in the FY 77-81 program, which was over twice as high (\$627 million) as the one of \$290 million contained in the present draft. Maybe in the end we may not be able to reach a figure as high as we had thought last spring but the operating point is that what is being estimated now is quite low. I therefore agree wholeheartedly with you, as per your para. 17, that the UPP lending foreseen in your draft is only a minimal target. We plan to do better in EMENA.

cc: Messrs. Benjenk, Dubey, K. Jones, Maniatis, deCapitani, Russell, Ms. Peterson  
EMENA Directors, Assistant Directors and Division Chiefs

# OFFICE MEMORANDUM

TO: Mr. E.V.K. Jaycox, URB

DATE: December 20, 1976

FROM: Mr. Ian Little, ECDDR

*IL*

SUBJECT: Urban Poverty Programme Implementation

I do not know what were the reactions to your memo of December 6th to Regional Coordinators which included the Little/Pyatt/Ahluwalia memo.

I still favor our own suggestions - of course. For myself, I am prepared to lose gracefully. But it is not really up to me whether the DPS wants to pursue the matter.

I have no useful comment on the present redraft addressed to regional Vice-Presidents.

IL:sa

cc: Messrs. Karaosmanoglu, Pyatt, Ahluwalia (o/r)  
Avramovic, Stoutjesdijk



## OFFICE MEMORANDUM

TO: Mr. Dragoslav Avramovic, ECDDR

DATE: December 20, 1976

FROM: Mark W. Leiserson, ECDER

SUBJECT: Urban Poverty Program Implementation

1. Kim Jaycox's memo of December 6 to Regional Urban Poverty Program Coordinator probably does not require further extended comment from us. But since he does speak of a "consensus" regarding the definition of an urban poverty target group it might be appropriate to point out the fragile and limited character of such a consensus if, in fact, any exists at all.
2. As far as I know, the only general agreement there is concerns the basic approach to defining poverty target groups--which, in principle, involves establishing minimal standards of consumption levels, both food and non-food with primary emphasis on the former. This is the approach taken by the Agricultural and Rural Development Department but it has proved extremely difficult, in practice, to obtain consistent and reliable estimates of rural poverty target groups from country economists. And, my understanding is that individual country estimates of urban poverty have been even more difficult to obtain from the Regions so that the Urban Projects Department has produced its own (which we have not seen) and which are not necessarily consistent with the rural poverty estimates of the Agriculture and Rural Development Department (or agreed to by them).
3. It seems to me that these definitional issues are likely to be of more than passing importance in developing a coherent Bank approach to poverty problems particularly at the country level. Moreover, they are also of significance in appraising any poverty alleviating effects of projects selected (as the Jaycox memorandum insists) primarily with regard to direct employment creation.

cc: Messrs. Stoutjesdijk, ECDDR  
Little, ECDDR

DEC 20 1976

## OFFICE MEMORANDUM

TO: Mr. Hans Pollan

FROM: V.C. Nwaneri *VCN*

SUBJECT: Comments on the Urban Poverty Program Implementation

DATE: December 20, 1976

1. As requested, I reviewed the memorandum of December 6, 1976, from Mr. E.V.K. Jaycox to the Regional Urban Poverty Program Coordinators on the above subject and have some reservations on the recommendations regarding criteria to distinguish urban poverty lending.
2. In paragraph 6, the paper correctly identified two approaches to achieving the objective of increasing the income and the consumption of the target group. These approaches are (a) reducing the cost of or otherwise increasing access to basic goods and services and (b) increasing income earning opportunities and capacity. I believe that the paper put too much emphasis on the second and too little on the first of these approaches. This misplacement of emphasis led, in my view, to greater emphasis being put on a group of projects such as industrial, DFC, tourism and other enterprise projects. This is different from the group of projects (e.g. public utility projects) likely to emerge if the correct emphasis was given to the first approach.
3. Furthermore, the misplacement of emphasis on the two approaches led to a suggestion of a method of analysis that is theoretically questionable and operationally difficult to implement. If the emphasis had been on reducing costs of services to the target group, one would avoid most of the complications discussed in paragraphs 7 to 16 regarding choice of appropriate ratios.
4. There are other reasons why the first approach is to be preferred to the second. For example, with regard to the first approach, the direct benefits to the target population are more certain to reach them. Public utility charges, educational fees, hospital charges, rents on public housing, etc. can all be made progressive or dependent on income or type of housing occupied in the urban areas. There will be little obstacle on the way for these savings to be reaped directly by the target population. With regard to the second approach being recommended in the paper, the direct benefits to target population are less certain to reach them because of characteristics of the private sector in developing countries such as the absence of effective labor organisations, greater tendency for monopolistic pricing and hence high profits and for these profits to be reinvested in less priority sectors or transferred out of the country. These characteristics are precisely those being given lower weight in the Squire/van der Tak methodology. Emphasis on the first approach seems to me to be more in tone with this methodology.

cc: Messrs. Knox, Lachman, Thys, A. Stone  
EMENA Files, Division File, Chron. File

VCNwaneri:sm



December 16, 1976

Division Chiefs (WAN):

Urban Poverty Program (UPP)

About a year has elapsed since the UPP was launched and I felt it would be useful to take stock of what has been done to date and where we are going next. Mr. Chaufournier has therefore agreed to put this item on the agenda of our next regional staff meeting and Mr. Jaycox, Director of the Urban Projects Department, will speak at our next staff meeting, Tuesday, December 21.

In order that the meeting may have as much focus as possible, I am attaching an advance draft copy of a memorandum Mr. Jaycox is planning to distribute for discussion at a forthcoming meeting of the Operational Vice Presidents. This memorandum summarizes the main issues at stake at this time and may help you anticipate some of the questions you would like to raise on Tuesday.

Since I do not have a list of all the participants in the regional staff meeting, would you kindly pass this note on to those in your units who normally attend the meeting.

Louis Pouliquen

cc: Messrs. Chaufournier  
de la Renaudiere  
Gue  
Wright  
de Azcarate  
Bachmann  
Bottelier  
Payson

## OFFICE MEMORANDUM

DEC 21 1976

TO: Mr. L. Pouliquen  
FROM: Luis de Azcarate  
SUBJECT: Urban Poverty Program Implementation

DATE: December 13, 1976

1. I find Mr. Jaycox's memo of December 6, on which you asked for comments, somewhat ambiguous as to the final message. The discussion in the memo, and the related controversy with Ahluwalia, Pyatt, Little (their memo of November 4) is about the best criteria to use for determining the UPP. As such it is an interesting, potentially useful exercise as far as our work in the Region is concerned provided it does not end up with another set of guidelines that we shall have to comply with. This is where the ambiguity lies, for each part of the discussion on what ought to be done is followed by a few sentences that say we should remain very flexible. For example on the amount of urban poverty lending the conclusion is more or less that we can do as we like provided total such lending for the Bank is (by FY80) some rather small, and vaguely defined proportion (around 10%). If we do have that kind of flexibility, and since the definition of urban poverty lending is itself open to interpretation, I see no problem. Similarly, para 11 following the discussion of various "search" criteria he ends up by saying that in any case "sound" micro-economic analysis of each project is the important thing--as it has always been. Again, in para 15, the recommended and arbitrary ratio that would define UP lending (less than twice the national average for K/L somehow defined) can be modified for "good country-specific reasons". Fine also.

2. Leaving aside now the question of what the real message of the memo is supposed to be, I have some quick comments on the substantive discussion about urban lending criteria.

3. It is noted first that we have all agreed on urban poverty target groups. I hope that because we and the other Regions have been able to produce numbers as requested we are not going to forget too quickly how shaky the statistical basis is. I am afraid that we will be soon asked to "update" numbers that are half mythical in the first place and that by keeping on reprinting updated figures these will subreptitiously acquire some respectable status.

4. As to the size of urban poverty lending, I fail to see what is so "reasonable" about a figure that results from (a) an existing total urban lending program that was arrived at as the sum total of regional programs most probably prepared in a very empirical fashion and the certainty of which is also probably dubious, and (b) the above program as a porportion of total lending multiplied by the proportion of what we think (on most uncertain basis, re para 3 above) to be the proportion of "urban poor" in the world. But, as noted above the final target is sufficiently small and sufficiently imprecise to be agreeable to everybody I suppose.



5. Thirdly, Mr. Jaycox's memo is not quite sufficiently clear in distinguishing the various purposes for which criteria are to be needed. This distinction, however, is well made in Ahluwalia et al's memo referred to above: "search" or identification criteria; appraisal or choice criteria; monitoring criteria. This is a useful classification and as noted in the paper it is also no doubt desirable that the three set of criteria be logically interrelated. I would like to note, however, that both Jaycox and Ahluwalia's memos seem to take it for granted that the van der Tak/Squire methodology has been agreed upon by all whereas we used to think that we were still at the experimental stage; I may have been overtaken by events.
6. It is most desirable to distinguish among the uses of various criteria lest we end up with a system of multicriteria analysis of projects. I realize this is a real methodological problem on which I have no firm views; my instincts, and what I see here and there in Africa, however, lead me to be suspicious of project selection based on a multiplicity of criteria because about any project will pass one or the other of the hurdles and be accepted, and in the end lead to wasteful use of resources: digging holes is not normally very good in terms of return on investment but it may be a very labor intensive activity; more seriously, how many new industrial investments in our countries are "justified" by nothing else but their "employment effect"? In other words let's indeed keep in mind, as said in Jaycox's memo (para 9), that "there is no substitute for proper micro-economic analysis".
7. I am a little concerned about the idea of "spreading" capital (Jaycox para 6; Ahluwalia et al para 6). If this concept is supposed to apply only within the urban poverty lending, I would say it is a fairly self-evident one for if the aim is to reach directly X people (and X is always large otherwise we would have no urban poor problem) we have to try and spread whatever capital we have among them. However, if the prescription is a more general one, I don't think it can be accepted a priori. In fact the footnote to paragraph 6 says more or less why: how efficient it may be to concentrate rather than spread investment will vary from country to country; spreading may be a way to directly reaching more people more quickly but it may also result in lower long run growth and therefore compromise the possibility of any "trickling down" effect later. The very example used (para 6) is revealing: is it at all obvious (in Africa) that spreading resources to ensure that the mass achieve basic literacy is preferable to concentrating the education dollar in getting a very few people through the higher levels of education? I would say it very much depends on each country (one with 10% literacy and one with 50% are different cases in this respect).
8. This example in effect points to a rather fundamental issue that I can perhaps express as follows. Our current preoccupation with the need to directly impact on the poor carries the idea that more basic consumption should be made available to the target group. But we are saying also that the aim is to give the poor the means to become more productive. In other words we want to give the poor more consumption goods and more capital goods. As long



as we talk about food there is no serious difficulty; indeed satisfaction of minimal nutritional standards is both an act of consumption and an act of investment. The same for basic health requirement (though these are already more difficult to define). Education however is a more tricky one. What are minimum requirements? What are maximum levels not to exceed? From primary to secondary, and to higher education costs per head increase enormously but as in any other sector the determination of an "optimum" level and pattern of expenditure cannot be based solely on the criteria of cost per head (or employment per unit cost). Investment in higher education (if it is not, of course, to subsidize the pursuit of purely personal endeavors such as the study of, say, medieval Chinese music) can have powerful multiplier effects.

9. In discussing the possible ratios to use (K/L, K/V, Lw/V) Jaycox gives preference to national averages that focus on the need for shifting resources among sectors (say from less to more labor intensive ones), while Ahluwalia et al would rather insist on intra-sectoral movements toward a situation of "optimal" K/L ratios. I don't see one preoccupation should be preferred over the other a priori. Also the intra-sectoral use of capital has two aspects which are not clearly separated in either paper: one has to do with the best use of capital with given technology (avoid wastage of capital, aim at full capacity utilisation, maintain capital); the other is about the adaptation of technology to the country's conditions (transfer of technology, indigenous innovation etc.).

10. To conclude, given the degree of flexibility that seems to be left to the Region to determine size, composition and even definition of urban poverty lending, I see no problem with guidelines and ratios of various kinds. It seems, however, that more than is reasonable at this time is taken for granted in terms of measuring target groups, appraisal criteria and knowledge of country parameters such as K, L, V or w (cut-off wage rate). One final remark: in this as in so many other Bank papers the whole discussion develops as if no one else but the Bank was in the aid business. In setting targets of any kind the primary preoccupation, it seems to me, should take account of what others, including the government, are doing.

cc: Messrs. Chaufournier  
Gué  
Bottelier  
Payson  
Bachmann  
Schmedtje  
D. King

Members of Urban Task Force

LdeAzcarate/lm



## OFFICE MEMORANDUM

DEC 20 1976

TO: Mr. Edward V. K. Jaycox, URB  
FROM: K. Kanagaratnam, PNP *Wahm*  
SUBJECT: Urban Poverty Program

DATE: December 9, 1976

*Mr. Stone -  
let discuss.  
S*

1. Following our discussions with you and Mr. Stone, we have given considerable thought to how we can respond meaningfully to your requests for information about the extent to which population projects in our lending program will affect the urban poor. I regret to say that we have not come up with any precise answers.
2. We would estimate that the principal beneficiaries of population projects are persons in the lower 40% of the income distribution of the countries concerned. This is partly because the fertility rates among the higher income persons are lower to begin with, which means that they already have knowledge of and access to family planning services, and also because one of the principal delivery systems utilized in population projects is the public health system which is used principally by lower income persons.
3. Clearly, there will also be some benefits for persons in higher income categories. Directly, some of these people will benefit from better trained personnel being available to provide health services including family planning services, better equipment for health and family planning personnel, and easier access to contraceptive supplies. Indirectly, the reduced population growth will probably result in lower national expenditures on health, education, social services, etc. which will reduce the pressure on general revenue. This would probably have tax implications for persons in the higher income brackets.
4. It is not possible for us to distinguish precisely which benefits of population projects go to urban sectors of a country and which go to rural. Most of our project activities are aimed at rural areas where the fertility rates are on average higher and the services tend to be less adequate. However, we also emphasize improving population activities in urban slums in those cases where national programs have not been effective in that respect.
5. Many of the activities financed in population projects such as training, strengthening management and administrative systems, information, education, and communications activities, etc. have an impact on both urban and rural areas and usually in ways that will vary over time. We have not been able to find a reasonable way of estimating how much of our projects should be attributed to activities in rural areas and how much in urban areas.
6. An additional complexity of population projects is determining who a project beneficiary is. Is it the person who comes to a clinic financed by a Bank loan? Is it a person who comes to a clinic in which he or she

Mr. Edward V. K. Jaycox, URB

December 9, 1976

is served by a medical person trained under a Bank loan? Is it a person who comes to a clinic in which recordkeeping systems have been improved through a Bank loan? Is it a person who has heard about family planning on the radio or who sees a family planning poster? Is it a person who buys a contraceptive from a commercial outlet that sells contraceptives because of Bank support for a commercial distribution system? Is it a person who learns about education in school when the curriculum reform adding population education was sponsored by a Bank project? Without being able to define more clearly who are beneficiaries it is not possible to say more precisely where the beneficiaries live. The External Advisory Panel on Population addressed generally the problem of quantifying benefits and beneficiaries in population projects. The Panel suggested that existing methodology did not permit precise quantification of benefits of population projects and felt that our analyses in the past had been more elaborate than the data underlying them would justify. The Panel also felt that the explicit statements of demographic impact tended to restrict Bank activity in the population field because some potential borrowers are reluctant to ask for funds if that calculation is required in the appraisal report. The conclusion of the Panel was that the Bank should continue to do population projects, but should do less of the specific quantitative estimates than had been done in the past.

7. I appreciate that this response does not assist your task in urban programming for the Bank. However, I think you will agree that there are some particularly difficult problems in identifying the "beneficiaries" of population projects and the places where they reside. Given that the number of population projects and the volume of lending for population are still quite small in comparison with Bank totals, perhaps your planning and programming exercise will not be distorted if you exclude population projects.

HWMessenger/rb



## OFFICE MEMORANDUM

TO: Regional Urban Poverty Program Coordinators

DATE: December 6, 1976

FROM: Edward V.K. Jaycox

SUBJECT: Urban Poverty Program Implementation

1. The lively discussion of Mr. Stone's September 14 memorandum has led to considerable re-thinking on our part and in the Regions and DPS. Agreement on fundamental points and on most of the features of an implementation strategy for the urban poverty program has emerged. There remain, however, some points of confusion and some points of legitimate disagreement. This memorandum responds to the main points of the discussion and describes the recommendation I will be making to senior management in an upcoming report.

2. The September 14 memorandum set out to:

- (a) define an urban poverty target group;
- (b) establish criteria to distinguish justified urban poverty lending from other justified lending or business as usual; and
- (c) give a reference point for deciding how much urban poverty lending the Bank should try to do.

I believe we have reached a consensus on points (a) and (c); most of (b) is also agreed. First, I will discuss the points on which we have reached an agreement, and then turn to the main point where we have not been able to agree and where a decision is required.

3. Target Group. We and Regional staff have now agreed on working estimates of urban poverty income cut-offs and populations for all countries likely to be affected. These estimates proved to be difficult to make using the suggested method as data was often lacking. Nevertheless, reasonable first estimates have been agreed for working purposes, and I believe this is a valuable first step in describing urban poverty in our member countries. Equally important is the general agreement to improve the estimates as opportunities occur in country sector and project economic work. Mr. Yudelman and I are preparing a separate memorandum to discuss the updating and improvement of country poverty estimates.

4. Size of the Urban Poverty Program. We have reached agreement on what would be a reasonable size of the urban poverty program. First, it is agreed that the urban poverty program should not compete for Bank resources with the rural development effort. Therefore, the program should be scaled as a proportion of urban lending, that is, lending that will directly impact



upon or benefit urban populations. In the current five-year lending program, urban lending amounts to about 30-35% of total Bank lending. The urban poverty program would be a part of that 30-35%. Secondly, we have agreed that the proportion of urban lending that should be "poverty lending" should eventually (by FY 1980) amount to at least the proportion of the target population in the urban population. This would be roughly 25-30% according to our present estimates. Overall then we are talking of only about 10% of total Bank lending. Thirdly, we have reached agreement that this target for urban poverty lending should not and cannot be used in a rigid manner that would overly constrain programming at the country and even the Regional level. The target should affect programming at all levels but should be held up as a Bank-wide target, allowing the kind of flexibility at country and Regional levels that is necessary for responsive operations and relations with our member countries.

5. We now have estimates of the urban poverty lending for each Region. You have the opportunity to review these and see how they will be handled in the report to senior management before that report is finalized.

#### Criteria to Distinguish Urban Poverty Lending

6. Agreement has been reached on a number of fundamental points in our discussion of this subject. First, I believe the confusion has been cleared up and complete agreement has been reached that urban poverty lending must meet all existing criteria by which Bank lending is justified. Secondly, we have agreed that the objective of the program is to increase the income and the consumption of the target group. Low income and low consumption of the basics for a productive life describe poverty. This objective can be achieved in two ways--by reducing the cost of or otherwise increasing access to basic goods and services, and by increasing income earning opportunities and capacity. There is wide agreement that a key part of both of these approaches is the spreading of available resources to increase the productivity of or serve the mass of the people. 1/ A crude example: IN education projects it means that instead of concentrating the education dollar on getting a very few people through the higher levels of education, countries spread enough of it over the mass to achieve basic literacy. I believe we have reached substantial agreement on this fundamental point of spreading available resources, and on how it would work in distinguishing poverty lending for the delivery of basic goods and services. We have

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1/ This is not to say that we have completely turned our back on the potentialities for "trickle down" effects from concentrations of resources. These potentialities remain; but the incidence of poverty suggests they not be relied upon to do anything significant about poverty in a reasonable time frame, except perhaps at very high overall growth rates.



agreed that such lending constitutes "poverty lending" to the extent that it meets existing criteria for Bank lending and delivers direct 1/ benefits to the target population, that are affordable by that population and/or otherwise replicable on a scale commensurate with the size of the problem.

7. Increasing income earning opportunities for the mass of the people also requires the spreading of resources (capital). This is generally agreed, and our discussions have narrowed to whether a capital/labor ratio ( $K/L$ ), a capital/output ratio, a value added to unskilled labor/total value added ratio ( $Lw/V$ ) or possibly other indicators would most effectively direct the Bank to identify and finance projects that spread capital and also meet existing criteria for investment.

8. We proposed a country-specific capital/labor ratio, based on the availability of capital and the current growth of the employment problem. This ratio was then to be adjusted to account for the Bank's capacity to operate at various levels of capital-intensity, i.e., we proposed to multiply by two. This proposal drew a lot of fire. Many have expressed the fear that it is too crude a measure and could divert us from, or be mis-used as a substitute for, sound micro-economic analysis. Others have felt that the proposed formulation yields impossibly difficult targets of labor-intensity and the Bank will not be able to find enough of these projects to fulfill its overall lending program, let alone its urban poverty targets.

9. There is, of course, no substitute for proper micro-economic analysis being proposed here, by Mr. Stone, or by those who have proposed alternative search criteria. Whatever indicator we may finally adopt based on macro-economic factors can only be useful and pay off on the assumption that the proper micro-economic criteria are also satisfied before a project is considered to be justified. We all agree on that point and that the present practice should continue to be upgraded by the introduction of the Little/Mirlees, van der Tak/Squire techniques and by their application earlier in the project cycle, where they can improve project design.

10. The suggestions for alternative distinguishing characteristics of poverty lending that have been elaborated upon in the Ahluwalia, Pyatt, Little memorandum to me of November 4, constitute a constructive effort to help us through a difficult area. They argue that actual benefits to the target group are best measured by a formula which directly incorporates the returns to unskilled labor and propose a formula where  $Lw/V$  ( $L$  is total labor employed,  $w$  is a national cut-off wage, and  $V$  is total value added) in a given project should determine the proportion of project costs

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1/ And indirect if they can be quantified.



which classify as urban poverty lending. To encourage investments which spread capital, they would supplement the  $Lw/V$  measure with a form of capital/output ratio,  $V/K$  (where  $K$  is the discounted capital cost of the project) which should be greater than some sectoral or national average. While we recognize that the combination of these two search criteria achieve much of what we are after, we have practical reservations.

(a) The  $V/K$  ratio scaled to national macro-economic situations would indeed push for capital saving and spreading without losing sight of the need for high returns to capital. It is really another formulation of the  $K/L$  ratio, assuming both cannot substitute for proper economic analysis. In our view, the  $K/L$  ratio more directly reflects the concern for employment that is central to the urban poverty program. Frankly, I do not see the danger that projects staff is going to lose sight of the need for a healthy economic return. Scaling the  $V/K$  to the macro-economic situation of individual countries is also in our view more problematical than for the  $K/L$  ratio.

(b) The proposed use of  $Lw/V$  as a method for classifying the amount of a loan which should be counted towards urban poverty program targets has much that is appealing since it allows that almost all projects have relevant employment benefits and it highlights labor intensity valued at some appropriate shadow wage. However, we have difficulty with it as a practical operating rule given our present state of knowledge. First, it is by no means obvious what  $(w)$  should be: the shadow wage in the economy, some average unskilled wage, the income cut-off of the target group? Each has advantages and disadvantages. Secondly, since it is proposed that all labor be valued at  $(w)$ , irrespective of actual wages and the skilled or unskilled proportions, we are uncertain about the relevance of such a value to the direct benefits, i.e., earnings for the target group in a particular project. Finally, the fact that the rule allows that almost all projects have relevant employment benefits, is in a very important sense a drawback. We want to adopt rules that promote change in the direction of much more direct employment benefits for the target population, and therefore we need a rule which will distinguish between "new style" projects and business as usual.

11. In any case, the various ratios considered are all built on parts of the basic production function. They are wholly compatible; although each may emphasize two legs of one three-legged stool, each implies something about the missing leg. And finally, as a search criterion, each is and must be viewed as presumptive until and unless borne out by sound micro-economic analysis.

12. As far as the fear of some as to the impossibility of the targets is concerned, I believe the targets will be difficult, but by no means impossible. In the poorest countries where it would appear to be most difficult to find productive operations associated with so little capital,



the facts are that in these societies such labor-intensive operations are commonplace. In any case, very low capital/value added ratios would be equally difficult to achieve, as would high Lw/V ratios, since they all amount to the same thing if properly scaled to the size of the capital/employment problem. There is no way that increasing productive earning opportunities for the mass that must be employed is going to be easy.

13. All things considered, for industrial, DFC, tourism and other enterprise projects, I am going to recommend that we adopt the low capital/labor ratio, as the distinguishing feature of urban poverty lending. I can find no one who believes other than that projects which bear this feature and meet existing Bank investment criteria will also have low capital/output ratios and high value added to unskilled labor/total value added ratios--i.e., have high positive direct benefits in terms of employment and income for the target population. The results will be monitored in terms of these direct benefits and if the capital/labor ratio is not adequately serving our needs, we will drop it or supplement it as necessary.

14. Apart from the alternative ratios that might be used, much discussion focussed on whether the ratios should be sector-specific or some economy-wide average. Sector-specific ratios for each country would be much more complicated to generate and in my view would not be useful for our major operational need. Sector-specific ratios would focus on moving toward more appropriate technology in each sector but would say nothing about sector mix. It is my conviction that while capital-saving can take place in every sector, the new part of what we are here addressing is the movement into sectors where an important part of the labor-intensive operations in an economy take place--inter alia the services, small scale enterprises and informal operations. Capital saving in the sectors we now operate in is business as usual and we can do better, but this movement into new sectors requires more radical change--new types of intermediaries and ways of doing business. As I see it, it is this latter task that is the bigger operational problem we face in the Urban Poverty Program. Therefore, I will recommend to senior management that we adopt the economy-wide average capital/labor ratio as an indicator rather than any set of sectoral averages.

15. In response to many comments on the exact formulation of the capital/labor ratio criterion, we have worked out some modifications which will improve it technically. First, the man-years of employment as well as the investment costs will be discounted over time and counted in man-years rather than 15 man-year job equivalents. Secondly, the threshold will be calculated by dividing available capital (GDI) by total labor force rather than 1/15 of labor force plus growth of labor force. These changes allow us to eliminate the arbitrary assumption of average economic life of fixed capital of 15 years and the definition of a job as 15 man-years of employment. Also, the new formula includes the underemployed in the economy as well as the yet to be employed in the group over which available capital must be spread. The formulation we end up with is as follows: Any project or identifiable sub-project for which the discounted costs divided by the



December 6, 1976

discounted man-years of employment generated is less than twice the GDI divided by the labor force, will be counted as urban poverty lending. Any modifications of the arbitrary doubling of this index for good country-specific reasons can be considered and agreed. We would be especially interested to see this factor reduced for the higher-income countries. A separate note on this will be prepared shortly.

16. I suggest we meet to discuss this memorandum, and the draft memorandum for Mr. McNamara and the Operational Vice Presidents (which I hope will come to you in draft before the end of next week) at lunch on Monday, December 13, when I shall return from mission.

cc: Messrs. Baum  
Ahluwalia  
Avramovic  
Dunkerley/Churchill  
Gordon  
Keare  
Little  
Pyatt  
van der Tak  
Yudelman

EVKJaycox/AStone:ncp



THE WORLD BANK  
Washington, D.C. 20433  
U.S.A.

*Circulate*

Office of the President

December 1, 1976

To Mr. Baum:

Thank you, Warren, for sending the attached note and for your action in clearing up any confusion between "targets" and "best estimates."

I was disturbed, however, to read in the minutes of the meeting a reference to "pressures to produce projects." I cannot state too strongly that there should be no "pressures to produce projects" other than in conformity with accepted Bank standards. We should make this point clear to all Bank staff members.

There is, of course, for each Project Division and Department an operating plan prepared by that Division to carry out its responsibilities (and in the aggregate, the responsibilities of the Bank Group) to help meet the needs of the developing countries. The appropriate resources (staff personnel, administrative budgets, etc.) have been provided to carry out the operating plans. And it is the responsibility of the managers to either meet the plans or to propose changes in them. But under no circumstances will we permit achievement of the plan by violation of the quality of the standards on which the plan was premised.

I would like you to get together with Jim Kearns and organize a session with the Regional Vice Presidents so that we can dig into the question of any real or perceived "pressures to produce projects."

I am sending copies of this note to each of the individuals receiving copies of the attached minutes.

  
Robert S. McNamara

cc: Mr. Kearns

Department Directors and Projects Advisory  
Staff in Central Projects Staff

November 9, 1976

Quality of Project Work

Mr. Baum referred to a recent OED report which had suggested that, under the pressure of circumstances a "target" rate of return had been used to justify a project, instead of the staff's "best estimate" which was much lower. He emphasized once again that, above everything, management trusted all staff to reflect their professional judgment in their work.

It was recognized that, by the very entrepreneurial nature of their work, there was a danger that staff would tend to be optimistic in their forecasts and underestimate the difficulties and risks involved in their projects. In addition, it was often very difficult to make valid estimates of rates of returns, in particular in agricultural projects, where data on crop production often were averages covering a wide range of circumstances, and actual results would depend on how many farmers could achieve the project objectives under variable weather and growing conditions, and especially how fast. Concern was also expressed about the possible dilemma of the regional staff when confronted, on the one hand, with the pressures to produce projects or substitute projects to meet lending program objectives and, on the other hand, with their professional standards.

It was agreed that the staff should be made aware that management unequivocally expects their recommendations to be based on their best professional judgment, with an indication of the nature and range of the uncertainties involved and a candid discussion of the factors on which the outcome depends. Under no circumstances should projects be made to look better than expected by the use of estimates that are based on "optimistic" assumptions. Nor should "conservative" assumptions be used in cases where projects had a high rate of return since this biased results in the opposite direction. To do otherwise would not serve the interests either of the borrower or the Bank.

DISTRIBUTION: Messrs. Ballantine, Fuchs, Jaycox, Kanagaratnam, Lejeune, Rovani, Sadove, Tolbert, van der Tak, Willoughby, Yudelman, King, Israel, Lee, Lethem, Lithgow, Morse, Raizen, Ray.

cc: Messrs. Knapp, Baum, Bell, Benjenk, Chadenet, Chaufournier, W. Clark, Krieger, Stern, Wapenhans, Alter, Weiner, Gabriel, Gordon, Burmester, Finne.



copied to RUPP  
EAC WB

## OFFICE MEMORANDUM

TO: Messrs. Bell, Votaw, Kirmani, Howell,  
Vergin, Hasan, Hawkins (o/r), Ruddy  
FROM: Willem C. F. Bussink *WCB*  
SUBJECT: Urban Poverty Lending

DATE: November 12, 1976

As a further contribution to our discussion of CPS' proposed criteria for urban poverty lending <sup>1/</sup>, I am attaching a brief analysis of the application of the criteria to the Indonesia Lending Program.

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1/ See my November 9 memo on "Mr. Stone's memo on Urban Poverty Program Implementation".

cc: EAP Programs and Projects Division Chiefs

WBussink:yc

Application of Mr. Stone's Proposed Criteria for  
Urban Poverty Lending: an Example (Indonesia)

1. At the request of the Urban Poverty Task Group, the Regions have divided the lending program over four categories: Rural, Urban, National and Unidentified. For Indonesia, the attached Table summarizes these data for two groups of two years. Total urban lending as presently defined, comes to \$278 million and \$190 million, respectively. Applying Mr. Stone's proposed urban poverty lending criterion to Indonesia<sup>1/</sup>, and given the fact that an estimated 55% of Indonesia's urban population has incomes below the poverty line, the target amounts for urban poverty lending would be \$153 million and \$105 million for the two periods.
2. From the Table, the following points emerge:
  - i) The farther ahead one looks, the larger the "unidentified" category, and therefore the lower the target for Urban Poverty Lending. It is, however, exactly for the later years that one can presumably still influence the thrust of the lending program.
  - ii) Concentrating further on the more definite FY77 and 78 program, six sectors contribute to urban lending. Of these, transport (Jakarta port) and power (Jakarta generation) contribute 40% of the total amount. It will clearly be difficult to argue that these projects directly benefit the urban poor. If they don't, the rest of the program will have to nearly fully satisfy the urban poverty lending criterion, rather an impossible target. Two remedies suggest themselves. Firstly, one could with some justification, relabel these loans national ones (this indicates how dependent the result is on such labelling). Secondly, one could indeed do away with such projects, but this then raises the real question whether that is the desired result of the exercise.
  - iii) Another category of projects consists of DFC and industry (small business development). To satisfy the urban poverty criterion here, jobs would have to be created at a very low cost, or production would have to be steered towards low-cost goods for the poor. It is as yet unclear how this is to be done, and whether it will be worth the undoubtedly large effort needed by Bank staff. On the other hand, if the effort were successful, there might be an important demonstration effect, even though the amounts of Bank financing involved would only come to about 0.5% of total Indonesian investment.
  - iv) For the remaining urban and water supply sectors, the criterion would call for the inclusion of substantial components aimed at the provision of services for the poor. This seems a worthwhile goal, even if its realization in Indonesia doesn't guarantee that the lower 40% of the population is being reached (given the fact that 55% of the urban population is deemed to be poor).

<sup>1/</sup> Strictly speaking, Mr. Stone's criterion is to be applied to regions, not countries. Logically, however, they should then also apply to countries (see my November 9, 1976 draft comments on Mr. Stone's memo, page 4, footnote).



BREAKDOWN INDONESIA LENDING PROGRAM BY SECTOR AND LOCATION OF LENDING (\$million)

SECTOR	FYs 77, 78					FYs 79, 80				
	Rural	Urban	National	Unident.	Total	Rural	Urban	National	Unident.	Total
Agriculture	555				555	570				570
Educ, Population Nutrition			59		59			75		75
DFC		65			65		60			60
Industry, mining	100	20			120		35		50	85
Transport		32		80	112		60	50	50	160
Power		80		80	160				145	145
Urban		51			51		35			35
Water Supply		30			30				30	30
Tourism									30	30
<b>TOTAL</b>	<u>655</u>	<u>278</u>	<u>59</u>	<u>160</u>	<u>1,152</u>	<u>570</u>	<u>190</u>	<u>125</u>	<u>305</u>	<u>1,190</u>
Target Urban Poverty Lending (55%)		153					105			

## OFFICE MEMORANDUM

TO: Mr. E. V. Jaycox (URB) DATE: November 9, 1976  
FROM: I.M.D. Little (ECD), Graham Pyatt (DRC DR) and M. S. Ahluwalia (DRC ID)  
SUBJECT: Our Memo on Urban Poverty Program Implementation: Errata

1. On reflection, we find that para. 15 of our memo should have carried the following footnote clarification.

\*The use of observed income shares of the urban target group in urban income as a benchmark for determining the share of value added directly accruing to the poor raises the question whether the technical limits of urban projects will provide sufficient eligible projects. Suppose, for example, that the urban poor are 40 percent of the urban population and receive 12 percent of urban income and we wish to double this share at the margin, we need to find enough projects such that  $Lw \div V$  is at least greater than 0.24. In some situations, it may turn out that this is simply not feasible. In this case some adjustment of the target is needed in the light of the technological possibilities in industry. Note that this is only a particular case of the general problem of setting sector specific targets, which we have discussed in the memo.

Mr. Stone

MSAhluwalia:jgp

cc: G. Beier (URB)  
A. Stone (URB)  
H. van der Tak (PAS)



## OFFICE MEMORANDUM

*Copied to Mrs. Peng,  
Hsin, Fied*

TO: Messrs. Bell, Votaw, Kirmani, Howell,  
Vergin, Hasan, Hawkins (o/r), Ruddy

DATE: November 9, 1976

FROM: Willem C. F. Bussink *WCB*SUBJECT: Mr. Stone's Memo on Urban Poverty Program Implementation

1. Herewith I am sending you draft Regional comments on the above memo, which I have been asked to prepare. Many others have already commented: DPS (Karaosmanoglu, Ahluwalia, Duloy, Little, Stoutjesdijk), other regions (Gilmartin, Hablutzel, Nowicki) and some of our own staff (Helmers, Mistry, McGarry). I have not tried to summarize all the arguments, but have concentrated on two which have not been made forcefully elsewhere: the "disutility" of applying general yardsticks, without country specifics, and the fact that the proposed system puts difficult additional criteria on lending to the poor countries. If one is to make a serious attack on the problem, much more country-specific work is necessary, and one should see whether one wants to commit the staff resources to prepare for such an attack (see the end of my comments).
2. Since Mr. Stone is going to prepare a second version of his memo, we may want to get together soon to decide what comment, if any, the Region wants to send.
3. I am at present looking at the Indonesia lending program in the light of Mr. Stone's memo. If any conclusions worth reporting result, I shall forward those under separate cover.

cc: EAP Programs and Projects Division Chiefs

WBussink:yc

COMMENTS ON MR. STONE'S MEMORANDUM ON "URBAN POVERTY PROGRAM IMPLEMENTATION"

1. The Bank's approach to poverty redressal is an important subject, and proposals to conceptualize, implement and monitor anti-poverty strategies warrant full discussion. Paragraph 2 below raises some general questions on the approach taken in Mr. Stone's memorandum on "Urban Poverty Program Implementation". Paras. 3 to 14 comment on its specific programming proposals. The conclusion is, that the proposed set-up suffers from serious drawbacks, and that a much more country-specific approach is necessary if meaningful criteria for poverty redressal are to be developed.

General Remarks

2. i) Given the well-recognized links between urban and rural poverty, and the danger of undesirable induced migration, it is questionable whether a separate urban poverty program should be instituted at all.
- ii) Public investment in urban areas is only one instrument to combat poverty. Other instruments, e.g. agricultural price policy, may be much more important. Within the overall policy framework, concentration on Bank contributions to urban investments may therefore place unwarranted emphasis on what may well be only a relative small element in the overall picture, and thus turn attention away from more important aspects and/or policy instruments.
- iii) Generally, the criteria for Bank lending are that the country's investment program as a whole must make sense, and that within the total the Bank should participate in areas where it has a comparative advantage and/or can play a catalytic role. In this context, the logical way to handle a specific poverty concern is to incorporate it in the

*separate from what?*

*not inclusive*



review of the overall policy framework and investment program, not to set specific separate targets for Bank rural and urban anti-poverty lending.

- OK
- iv) It is hard to see how any exercise as proposed can make sense without country specifics. For instance, there may be wide country differences in the importance of directly creating additional employment, in the "affordability" of expanding public services, and in the priority that needs to be given to earning or saving foreign exchange, and this should have implications for country programs, including those to alleviate urban poverty directly.

Specific Comments

OK

3. Target Group Identification. Instead of a single criterion, the memo (para 4) proposes a double criterion: absolute or relative poverty <sup>1/</sup>. This makes life more complicated, but only slightly more so. In EAP countries, the absolute poverty criterion dominates. We have done the basic work. Updating or refinements should not be required on a regular (or even annual) basis, but only if there are significant changes in the overall picture and/or when a body of new data (e.g. a consumption or income distribution study) becomes available.

4. The conceptual weakness of a target group approach is that no attention is paid to differences in degrees of poverty. Logically, if we are to distinguish the poor from the non-poor, it is equally necessary to distinguish between the very poor and the not-so-poor.

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<sup>1/</sup> The intention is to adopt the highest of the two criteria for the poverty line and the number of people in poverty. Generally speaking, the relative poverty criterion becomes operative in the richer countries only.

5. Also, one should perhaps note that if the identification of a large number of people in poverty leads to the establishment of (impossibly) high poverty lending targets, there will be an incentive to keep the target group small.

6. Definition of Urban Poverty Lending. This section contains many worthwhile ideas but also raises many questions. Urban poverty lending is defined in para. 8 as lending which directly benefits the target group. A major issue is whether we should only count direct benefits. One can certainly sympathize with the thought that allowing all real or imaginary secondary effects (of e.g. a power generation project) to be counted makes the definition almost meaningless. On the other hand the proposed definition is also very questionable. What if a project does lower costs of goods consumed by the poor, but at the same time - indirectly - throws many people in the traditional sector who now produce these goods out of work? What if one project only uses imported raw materials but another will greatly increase demand for labor-intensive domestic inputs?

*econ analysis  
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7. The importance of indirect effects varies with the type of urban poverty project. The memo distinguishes three types: urban services, production of basic goods, and employment creation <sup>1/</sup>. From the memo, the first category appears to be relatively straight forward and noncontroversial. The benefits of public urban services projects are largely direct and location specific. The tests of affordability and replicability are important. However, there remains the question who will bear the costs of these services (para 10). Even if the poor are able and willing to pay, efficient collection must also be technically possible and politically acceptable. In the poorest countries and/or for the poorest groups, cross - subsidies or full public

<sup>1/</sup> Para 16 indicates that there may be a fourth type, but its definition is not precise enough to be operationally usable.



not  
see

subsidies will often be unavoidable. In other words, the poorer the country, the higher the proportion of urban service project costs that may have to be financed through subsidies. In addition, the targeted proportion of Bank urban poverty lending in total urban lending is also linked to the country's poverty (through the percentage of urban population in poverty, para 17)<sup>1/</sup>. Thus, through both factors, the poorer the country, the larger the need for subsidies under the proposed Bank guidelines. If this is indeed the intended thrust, its implications should be assessed carefully.

8. Of the other two types of urban projects mentioned above, the category "production of basic goods and services for the target group at a cost below prevailing costs" (para 12) remains vague. It will have to be detailed much further before it can be meaningfully discussed. In general, the questions it raises are of the same general nature as those pertaining to the employment-generation type.

9. The approach taken towards employment-generating projects (paras. 13-15) is very interesting but inadequate. If one hopes to attain the objectives, a much more detailed and sophisticated approach is necessary. There are substantial technical questions on the derivation of the capital cost per job criterion (para 10 below), but more important are the general ones already discussed in para.2 above. Certainly there is an urgent need to

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<sup>1/</sup> It is true that Mr. Stone's memo does not propose targets for each country and sector which directly relate urban poverty lending to the percentage of urban population in poverty. It seems clear, however, that setting overall regional targets in this way does have implications for country and sector targets. This is most obvious in Regions where all countries are equally poor (e.g. South Asia). In more mixed regions, such as EAP, it is not clear why some countries (presumably the richer ones) should have relatively large anti-poverty lending to compensate for shortfalls in other countries (presumably the poorer ones) in the Region.

translate employment and income concerns into practical measures to improve the labor market situation. However, if all the indirect and dynamic effects, relevant related policy questions and country specifics are left out, one cannot be reasonably confident that meaningful criteria and/or measuring sticks result. Using short-cut methods, like the one proposed, will leave many operating departments unconvinced that the yardsticks with which their performance is being monitored are meaningful, and will increase the resentment against "labelling" and "figure-mongering". Be this as it may, a much more serious risk is that short-cut criteria and decision rules will influence the Bank's general policy thrust and/or concrete decisions in the "wrong" direction and be inimical to poverty redressal <sup>1/</sup>.

10. Technically - and very briefly - the derivation of maximum costs per job in para. 14 raises the following questions:

- Source?*
- i) No justification is given for the unorthodox way in which replacement investments are treated. Normally, because of the fact that investments grow over time, and because a substantial proportion of investment goods are repaired rather than replaced, replacements are not more than 15-30 percent of total investments. If these are deducted, and the rest is allocated only to the net addition to the labor force, the available investable funds per job are 3 to 4 times as large as the amounts arrived at by using Mr. Stone's method.

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<sup>1/</sup> In effect, the rules being proposed will put additional constraints on lending to the poor countries.



ii) Doubling the initial figure is then justified on the basis of possible indirect effects, and to place the threshold more clearly within the operationally feasible range of Bank intervention. The first argument is too general; as argued in para. 6 above the indirect effect can be negative. The second argument throws additional doubt on the validity of the whole approach 1/.

iii) Dependent on the availability of infrastructure, a part of the investible resources will have to be used to repair, improve or create infrastructure, which will directly create only a few jobs.

iv) Several lesser remarks could be made, which would however all reemphasize the same point: that one needs to be country and project specific, and that no "rule of thumb" can substitute for this.

11. Regional and Sector Targets. In paras. 17-18 of Mr. Stone's memo, regional poverty lending targets are proposed which set the target proportion of urban poverty lending in total urban lending equal to the proportion of urban poor in the urban population. In short, the poorer the region, the higher the target proportion of urban poverty lending. Also, however, the poorer the region, the more difficult to satisfy the poverty lending criteria, as the "allowable" cost per job created decreases, and it becomes more and more difficult to generate urban service projects that satisfy the criteria of affordability and repli-

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1/ For very poor countries, with low investible resources, it will indeed often be necessary to accept that the Bank cannot effectively promote employment at very low cost, and that anyway substantial employment will still have to be provided through an expansion of the traditional sector with low investment. (This would point towards intensification of the search for activities with large indirect employment effects). The argument would however not hold for the somewhat richer countries. Doubling the maximum allowable cost per job therefore does not seem justified for all countries. This again points to the need to be country specific.

bility. Under these circumstances it is unclear why this specific targeting system is being proposed.

12. The proposed sub-system for sector specific targets is more loosely prescribed. It will certainly be useful to develop an idea of the extent to which different kinds of essential services are lacking. However, to set targets for each of these sectors within totals that are questionable, only exacerbates the difficulties inherent in the proposed system.

13. Regional Urban Poverty Program and its Monitoring. For the urban services component, where it is reasonably clear what urban poverty lending is, the program can be fairly easily defined and monitored. For that part, the remaining problem is to devise a realistic system of targetsetting for each country, given its specific circumstances and constraints.

14. With regard to the creation of incomes and employment for the urban poor, the idea that this can be targeted, programmed and monitored through a project approach should be abandoned as impracticable and possibly counterproductive. An alternative approach is discussed below.

#### Alternative Approach

15. If shortcuts are impracticable or even dangerous, more detailed analysis will be necessary to attain the given goals. The key element would be a periodic country-specific review of poverty incidence, employment trends, and policies to improve employment and incomes of the poor, within the overall constraints the country faces. This review, which would cover both rural and urban poverty would describe the problem, analyze it, identify the practical opportunities for poverty redressal, and set specific targets for the years ahead, together with guidelines to monitor them.

16. These "Country Poverty Reviews" (CPRs) would be produced periodically, the first set phased over perhaps the next three years.



The set-up could be roughly similar to those for sector memoranda. Concentration would initially be on countries with large poverty problems, and/or countries where the Bank may have a significant contribution to make, either through analysis or through financial assistance.

17. The CPRs would in the first instance bring together already available information on the poverty problem. They would also identify gaps in knowledge, and develop a work program to fill these gaps. In principle, the CPR would be a convenient vehicle for a broad-ranging discussion with the Government of poverty incidence and policies towards poverty redressal, identifying a role for the Bank in the process.

18. Of course, the production of CPR's would put a significant claim on manpower, given the need to establish links between the distribution of income (including provision of public services), employment trends and the investment program. Country expertise would be provided by the regions, technical and sectoral expertise (services and their costs, employment and labor market analysis) by CPS and DPS. If CPR's would, on average, cost 4 to 6 manmonths to prepare, an input of about 10 manyears per year for 3 years would be necessary (Bankwide) to prepare the first round of CPR's. While this is a significant cost, it is doubtful whether much could be accomplished in the way of development and implementation of anti-poverty strategies unless an initial investment of this order of magnitude were made. If the scarcity of Bank manpower resources precludes such an effort, work should be concentrated either on a few key countries, or on the development of country specific programs for the provision of public services at a cost that the country can bear. Anything like a comprehensive approach to the poverty problem will however necessitate the commitment of substantial Bank manpower. As argued earlier, an attempt to avoid this through the application of general short-cut criteria is likely to be counterproductive.

## OFFICE MEMORANDUM

TO: Mr. E.V. Jaycox (ORB)

DATE: November 4, 1976

THRU: H.S. Ahluwalia (DRCDD), G. Pyatt (DRCBR), and T.M.D. Little (ECB)

SUBJECT: Urban Poverty Program Implementation

1. At our last meeting we argued for a "cybernetic approach" to the design of any Program Implementation System. Such an approach recognizes that effective Program implementation consists of several distinct phases and we need suitable management tools for each of these. In this memo we present the outline of an operationally feasible Program Implementation System designed along these lines.

2. For effective programming of Bank project lending we need management tools for three distinct tasks

- (i) identification of suitable (in a probabilistic sense) projects early in the project cycle
- (ii) full dress appraisal of projects at a relatively advanced stage of the project cycle<sup>1/</sup>
- (iii) monitoring of Bank performance ex post in meeting poverty alleviation targets.

There is no dispute on what is an appropriate tool for (ii) above. Project evaluation techniques taking full account of efficiency and distributional objectives are well developed and are adequately reflected in the Equisco van der Tak methodology which we hope will be uniformly applied in the Bank. The problem is to devise effective tools for (i) and (iii). Since the full dress project appraisal techniques provide a detailed formal evaluation of projects, it is reasonable to suppose that any management tools devised for (i) and (iii) should ultimately be reconcilable with the formal project evaluation methodology.

### 1. Project Identification: A Search Criterion

3. For project identification at the early stages we need a search criterion which is easy to apply, but which is clearly related to the more elaborate criteria built into the full project appraisal methodology. We propose two search criteria that should be borne in mind in identifying all urban projects.

<sup>1/</sup> There is no full dress appraisal stage for IDA projects. The special problem of designing a program implementation system for IDA projects is discussed separately in this memo.



(a) Percentage of benefits (Valued in Market Prices)

4. We should look for projects which meet some target percentage of benefits accruing to the target group. The percentage accruing to the target group should be defined as follows. For urban services projects the procedure already proposed in Mr. Stone's memorandum is perfectly acceptable. For other non-DPC urban projects, we suggest the percentage of total value added accruing to unskilled labour be adopted as an approximate measure of percent of benefits accruing to target groups.

5. In order to avoid the potential problem of distortion of this index when very high wages are being paid, we might simply multiply total employment by some cut-off wage  $w$  to quantify that part of the wage component which qualifies as "direct benefit" to poverty groups. Wage payments above the cut-off wage level are not counted as part of the benefit accruing to target groups. Thus, given total employment  $L$  and a wage cut-off  $\bar{w}$  (which should be calculated on a national basis), we have  $L\bar{w}$  as a measure of benefits to the target group. Since value added  $V$  (say at full production) is usually readily available at a fairly early stage in project identification, it should be easy to compute  $L\bar{w}/V$  for any project.

(b) Capital:Value Added Ratios (Valued in Border Prices)

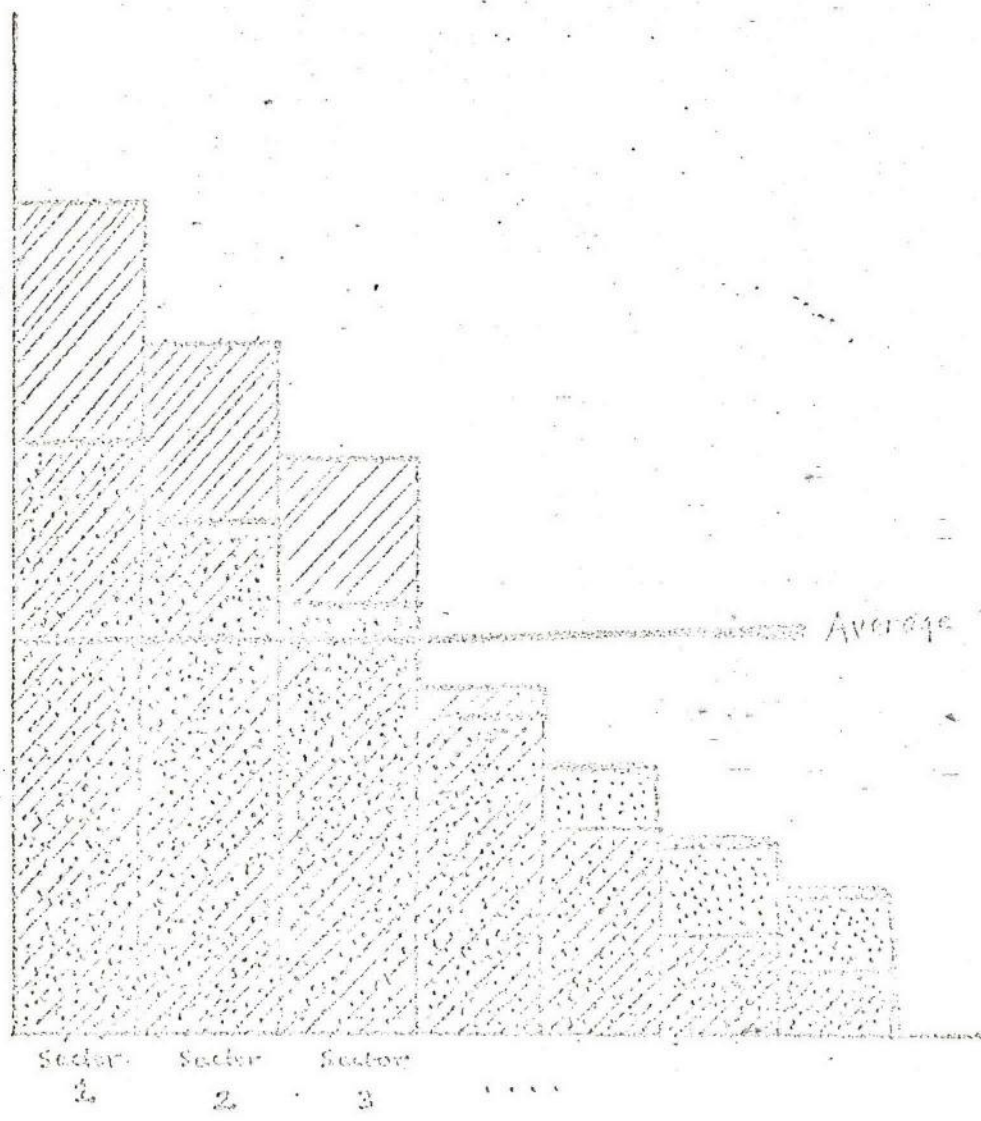
6. In addition to the above search criterion we may also need a criterion which ensures that our projects spread capital more thinly while remaining productive. We recommend a value added:capital ratio  $V/K$  where  $V$  is the discounted present value of the value added stream over the life of capital and  $K$  is the total capital cost. Note that this "search criterion" is very close to the rate of return on capital when the shadow wage is zero. The major advantage of the capital:value added criterion over the capital:labour ratio is that it responds to the concern for "capital spreading" while at the same time ensuring that we do not lose sight of project benefits. By contrast, the proposed capital:labour criterion provides no clue to project benefits, and is therefore a poorer search criterion.

7. To be used as search criteria the percentage of benefits accruing to the poor and the capital value added ratio computed as described above must be compared with some desired or target level to determine the suitability of projects at an early stage. This raises an important question. Should the target level to be used in project search be a country average (as with the capital:labour ratio proposed) or should we resort to sector specific targets? The issues that are relevant in this context can be identified as follows. The optimum capital intensity (whether measured in capital:labour ratios or capital:value added ratios) must vary across sectors. Figure 1 shows on the vertical axis the capital intensity of projects in different sectors. The sectors are ranked on the horizontal axis, in descending order of capital intensity. The height of the shaded bars shows the actual capital intensity which

1/ The use of total labour rather than unskilled labour in this formula may be questioned. We prefer total labour primarily for reasons of simplicity and because any error from including non-target group labour is likely to be small since the amount of labour is only multiplied by  $w$  and not the actual value which may be very high.

Fig 1.

Capital Intensity of Typical Project in Sector



Average Capital Intensity



Actual Capital Intensity

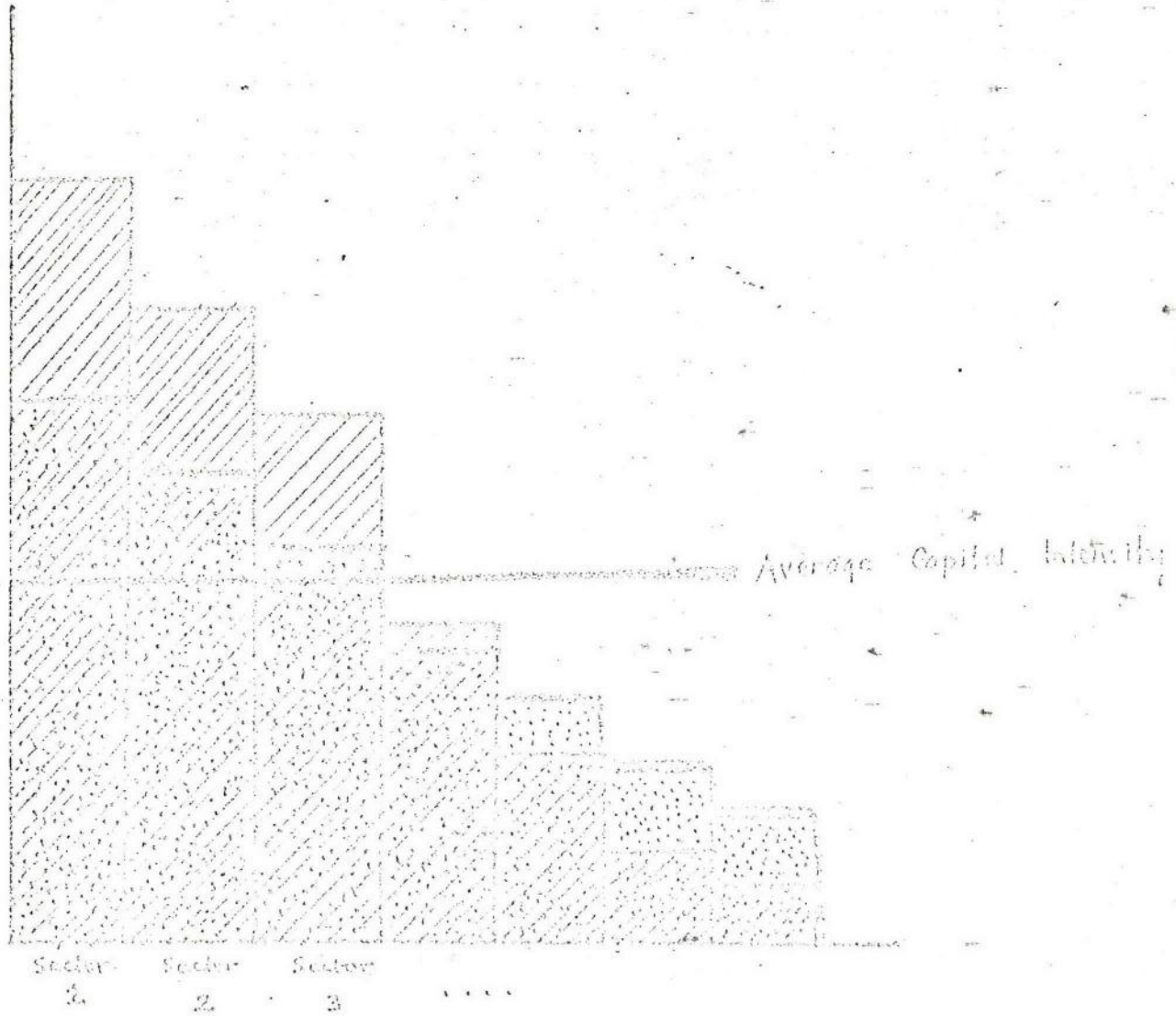


Optimal Capital Intensity



Fig 1.

Capital Intensity of Typical Project in Sector



Actual Capital Intensity



Optimized Capital Intensity

too high in capital intensive sectors at the expense of insufficient capital in the less capital intensive sectors. Typically, there may also be too much total investment in the capital intensive sectors so that the average capital intensity in all projects is too high. Against this the optimal capital intensity in each sector is given by the height of the dotted bars. Economic policy should be concerned with (a) lowering capital intensity in each sector toward the optimum and (b) shifting capital into the less capital intensive sectors.<sup>1/</sup> In such a situation, corrective policy requires a shift in investment towards sectors in which there is under-investment combined with lower capital intensity in the over-capitalised sectors.

8. The programming system proposed in Mr. Stone's memorandum does not directly address the problem of devising identification criteria to be used to determine sector targets for Bank lending. The use of an average capital intensity does not in our view ensure that project portfolios will shift across sectors and towards labour intensity within sectors in an optimal fashion. In fact, we may be imposing a criterion which will be impossible to meet for some sectors and easy to meet for others. In our view, we should adopt sector specific targets to be used in search criteria to identify projects. These targets can be set to meet some specified improvement in the observed average of past projects in the sector. Thus we may wish to increase the average share of benefits accruing to the poor, or reduce the capital:value added ratio, within each sector by some percentage.

9. If the use of a sector specific target for the search criterion is deemed unacceptable (for whatever reason) we would accept some sort of average target for the economy as a whole as a second best. In this case, the average may be set at the same level used to monitor overall performance in each country as described in II below.

10. Finally, a word on DFC projects. It is self evident that the criteria proposed above are unsuitable for lending to intermediaries. We suspect that there is no satisfactory solution to this problem. We note, however, that the criteria we have proposed are no more difficult to apply than those currently proposed since we require knowledge of only  $K$ ,  $L$ , and  $V$  from the project with  $\bar{w}$  being a "country" parameter.

#### 11. Ex Post Monitoring of Bank Program

11. We turn now to the problem of designing a monitoring system which will permit us to monitor the Bank's performance in imparting a poverty alleviation

<sup>1/</sup> In fact, of course, both the optimal sectoral capital intensity and the optimal sectoral distribution is simultaneously determined.



orientation to its projects. In one sense, this is best done by applying full dress project appraisal (with weighting of benefits) to all projects and documenting the results of such appraisal. However, we accept that the Bank may also wish to measure its lending performance in terms of the search criteria discussed in I above.

12. We suggest that for this purpose monitoring be limited to the percentage of benefits accruing to the poor. Of the two search criteria discussed above, this criterion is perhaps the most relevant if we wish to monitor the direct contribution of Bank lending to poverty alleviation.

13. A monitoring system may be used for two purposes. It may monitor whether there is improvement or deterioration in Bank performance (according to some criterion) or it may be used to achieve specified targets of performance. In the latter case we need not only to measure performance in specified dimensions but also to determine reasonable targets. We discuss these separately below.

(a) Measuring Performance

14. We suggest that Bank performance in contributing directly to poverty alleviation be measured as follows.

(i) For urban service projects we simply chalk up as poverty-oriented lending that proportion of the cost of each project which corresponds to the proportion of beneficiaries in the target group.

(ii) For all other non-DFC projects we should calculate the total benefit from each project and the benefit accruing to the target groups and then add across projects to obtain the proportion of total benefits from all projects accruing to the target group. If it is necessary to identify the portion of lending directed at target groups it would be best to apply the proportion of benefits accruing to target groups to the total lending on all these projects.<sup>1/</sup>

(b) Setting a Target

15. We now turn to a question that was raised on several occasions at our last meeting. How do we set a specific target for percentage of benefits accruing to target groups, to be used both as an initial search criterion and as an ex post monitoring criterion. We suggest that the target be set at some specified multiple of the income share of the urban target population in urban

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<sup>1/</sup> The alternative of applying the proportion to the costs of each project (as proposed for urban services projects) has the disadvantage that it does not give due weight to projects which generate larger absolute benefits for the poor but a smaller proportion. Note that aggregation across projects is possible with urban service projects because we have no measure of benefits which can be added across projects.

income.<sup>1/</sup> This would amount to determining a target for income shares at the margin which is aimed at improving the observed income shares of the poverty group. It will be necessary to determine what this multiple should be for each country. We may want to double the income share at the margin in a country in which inequality is very high but this is obviously absurd in a country which has already achieved a high degree of equality (population shares are close to income shares).

### III. Feedbacks

16. Finally, there is one important aspect of a Bank program monitoring system, which follows from the cybernetic approach, which we would emphasize. This is the need for feedbacks from information generated in one stage of the system to another. Since full project appraisal is the stage of formal project evaluation, the success or otherwise of search criteria should be determined in the light of project performance under formal project evaluation. This implies that over time the search criteria being used should be continuously evolved to ensure that the projects identified also show up as good projects in the project appraisal stage.

cc: D. Avramović (ECD)  
G. Beizer (URE)  
H. Chenery (VPD)  
W. Gilmartin (ASRVP)  
A. Karacemenoglu (VPD)  
A. Stone (URE)  
E. Stoutjesdijk (ECD)  
H. van der Tak (PAS)

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<sup>1/</sup> The share of the urban population in urban income can be obtained from census distribution data used to calculate percentage of urban population in poverty.



## OFFICE MEMORANDUM

TO: Mr. E. V. Jaycox (URB)

DATE: November 9, 1976

FROM: T.M.D. Little (ECD), *Little* Graham Pyatt (DRCDR) and M. S. Al-Juwali (ORCID)SUBJECT: Our Memo on Urban Poverty Program Implementation: Errata

1. On reflection, we find that para. 15 of our memo should have carried the following footnote clarification.

\*The use of observed income shares of the urban target group in urban income as a benchmark for determining the share of value added directly accruing to the poor raises the question whether the technical limits of urban projects will provide sufficient eligible projects. Suppose, for example, that the urban poor are 40 percent of the urban population and receive 12 percent of urban income and we wish to double this share at the margin, we need to find enough projects such that  $\Delta V$  is at least greater than 0.24. In some situations, it may turn out that this is simply not feasible. In this case some adjustment of the target is needed in the light of the technological possibilities in industry. Note that this is only a particular case of the general problem of setting sector specific targets, which we have discussed in the memo.

MSAljuwalia:jap

cc: G. Beier (PRD)  
A. Stone (URB)  
R. van der Tak (PAS)

OFFICE MEMORANDUM

*W Stone*  
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*Copy Info System*

TO: Messrs. D.Elliott, J.Fish, J.Howard, A.Thys, A.Frank, DATE: November 2, 1976  
J. Stewart, E. Sekse  
FROM: Hans Pollan *W*  
SUBJECT: Urban Poverty Program (UPP)

1. Following on further work done in the Urban Operations Review and Support Unit (which you know is headed by Alistair Stone) the Bank is currently engaged in a further refining of the tentative UPP proposals that had been established last spring. This is necessary because first of all there have been several CPP reviews since spring and, secondly, because some further thought has been given towards identifying low income groups in our member countries and subsequently in ascertaining criteria for the appointment of UPP target groups. The last effort in this connection was Alistair Stone's September 14 memorandum on which further work however still needs to be done because it has evoked considerable and varying responses especially on the employment criteria.

2. Even with the as yet uncertain state of the art it is necessary that we help towards further refining the outlines of the Bank's urban poverty program. Opinions in this area would be particularly helpful to advance further the discussion planned for late this autumn (possibly already late this month) concerning the criteria for target groups; this discussion is planned under the chairmanship of Mr. Knapp in a meeting of the Operational Vice Presidents.

3. We now need your help. I have tried, in preparing this effort within the EMENA Region, to keep the mechanical working process to a minimum. This is possible because

- (i) we have already made a head start through an earlier approximation of the EMENA UPP 1966-81 as shown in my note to Mr. Jaycox of May 11, of which you have a copy.
- (ii) the fact that the Urban Operations Review and Support Unit has the services of a Research Assistant, Ms. Morag Kinnison, who will do most of the running in fitting the redone UPP lending program together which she will, before we pass it out of the Region, present to me for my approval.

Ms. Kinnison will be phoning you for appointments during the remainder of this week, starting tomorrow, Wednesday November 3. For these meetings Ms. Kinnison will talk individually with each Division Chief and whomever he wishes to associate from the division. You will need to use my May 11 note. She, in turn, has material of her own partly derived from work of country economists concerning the identification of low income groups. Please make available to her any help where needed to re-shape the UPP, particularly in light of changes since May in CPPs and your own appreciation of target groups arrived at either through your own judgment or with the



November 2, 1976

help of some of the items of Alistair Stone's September 14 memorandum, or some combination thereof. I am particularly interested however in your own judgment in this area.

4. I am also copying this note to all EMENA Programs Division Chiefs because in the second round of Ms. Kinnison's interviews she may most likely have to approach the Program divisions.

cc: Messrs. Jaycox, Stone, Ms. Kinnison  
Dubey, Lachman, K. Jones, Moreau, de Merode, Ms. Peterson  
EMENA Programs Division Chiefs

## OFFICE MEMORANDUM

*Mr. Stone -  
Set up a meeting*

TO: Mr. E. Jaycox, Director, URB

FROM: A. Karaosmanoglu, Director Dev. Policy *AK*

SUBJECT: Programming Urban Poverty

DATE: October 26, 1976

*ASAP with  
Ruhwalia / Duloy  
and Atilla K.*

1. The attached note by Messrs. Duloy and Ahluwalia on the problems of "Targetsetting" in urban poverty lending reflects considerable discussion within DPS and represents a general consensus on the issues addressed. *kin*

2. We all understand and, in principle, agree that poverty alleviation objectives deserve greater attention and greater weight in the allocation of investment resources and that various target-setting proposals based on labor intensity derive from this premise. We would like to see, however, that the development of a coherent system of Bank economic sector and project analysis does not seriously suffer in the process of establishing "targetting" rules and/or guidelines.

3. Although it may be true that an improvement in the allocation of capital will require that investment per worker should be changed in favor of labor-intensive activities, an optimum investment package will always contain projects with different degrees of capital intensity. Therefore, proper project or program identification, formulation and appraisal, taking into account the social cost of employment, is the only way in which a project related approach can improve the allocation of capital, while also making proper allowance for future poverty.

4. The issue which must be faced is the fact that the Bank projects make a real difference only if they are both good and would not have been done anyway, or not done so well. Successful originality, including the originality of finding projects which have a high social value, sometimes but not always because they are labor intensive, is certainly needed. Targetsetting is at best only of limited usefulness in stimulating this sort of social entrepreneurship and cannot substitute for a coherent system of economic analysis, and project identification in which attention is given not only to direct labor intensity but to other inputs used, and to the likely return -- as well as to broader considerations such as whether this is the sort of thing the country would do equally well, or almost equally well itself.



5. In evolving an articulated system for incorporating poverty alleviating objectives into Bank lending programs, it is essential that lending guidelines are perceived by the operating departments as fitting into a manageable framework. The adverse reaction already recorded by some of the Regions to the imposition of additional lending guidelines of the sort contemplated for urban poverty or land settlement projects derive to a large extent from the same considerations addressed in the Duloy/Ahluwalia note and this memorandum. This gives added weight to the need to work with the Regions on practical methods of applying the system of Bank project analysis a la van der Tak/Squire and linking it more effectively with general economic and sector work of the Bank. Insofar as targetsetting interferes with this process, it detracts from rather than supports progress toward the common objective of increasing the effectiveness of Bank lending in alleviating poverty.

6. It would seem that further discussions are needed:

- i) with the DFC Department as to what guidelines, the results of which could be accurately monitored, could best serve to guide DFCs in the right direction. These might involve sectoral allocation, size of loans, collateral requirements, or other considerations which fit more directly than a capital labor ratio with the operational criteria which DFCs use;
- ii) with the Central Projects Staff as to how a wider spread of capital could be best and most quickly achieved -- this again might involve a considerable sectoral realignment with consequences for staffing, specialization, etc.;
- iii) with country economists and Regional Project staff as to how the mix of the Bank's investment activity can be modified so that there is more concentration on poverty alleviation and employment, especially in areas which the country itself may tend to neglect. We refer to areas of activity excluding urban infrastructure and services, where it is agreed that the criteria based upon direct benefits to low income groups may be useful.

October 26, 1976

7. The aim throughout must be to search for and identify relatively neglected areas of activity where high social returns can be found. It is not too much to hope that through such discussions various sets of procedural guidelines can be established which would have a greater prospect of achieving the end desired than the use of a capital/labor cut off.

Attachment

cc: Messrs. Chenery  
    Baum  
    van der Tak  
DPS Directors  
Chief Economists  
Messrs. B. B. King  
    Little  
    Stoutjesdijk  
    Keare  
    Leiserson  
    Ahluwalia



## URBAN POVERTY PROGRAM IMPLEMENTATION

Montek S. Ahluwalia and John H. Duloy

Our concern with Mr. Stone's memorandum on the above subject is at three levels. The first has to do with the general problem of "targetsetting" in project design and selection; the second has to do with specific problems of targetsetting in urban in contrast to rural projects; and the third focuses upon the particular form of targets for urban lending. Throughout the note we take it as given that the objective is to increase the benefits--and particularly the direct benefits--which accrue to the poor. This is to be done by creating a management tool to monitor the number (or proportion) of projects (or funds lent?) which qualify as poverty projects.

### I. The Justification for Targetsetting

The project appraisal methods developed by Little-Mirrlees or by Squire-van der Tak incorporate a social welfare function which permits a higher weighting on benefits which accrue to the poor than to the rich. In principle, the systematic use of these methods will lead to the selection of a portfolio of projects consistent with an anti-poverty objective. Why then impose poverty-project targets of the form that x% of projects (or of lending) should directly reach the poor? Such targets might be justified in two main ways.

The first is the case when the project produces goods or services for the poor which are non-tradable. The problems of quantifying the benefits of pure water supplies, or clinics in the slums and the like need not be expanded upon here. In such cases, it seems to us entirely appropriate that a government (or the Bank) might decide to bring such services to y million people per annum, or to allocate z% of its budget to such projects.

A politically-defined target or constraint, combined with cost minimization in the supply of the services, can be justified both practically and conceptually.

The second line of justification might be that we cannot apply a social weighting system in practice. One reason might be that such a system demands that we be able to identify the beneficiaries and the benefits they receive, and we may be unable to secure such data. This is clearly not a satisfactory reason since if we are unable to measure who benefits, it is ultimately impossible to attach the label of "poverty project". In such a situation, the validity of any proxy or short-cut measure, such as that proposed in Mr. Stone's paper, cannot be determined. Another argument against social weighting might be that we find it impossible to determine the relative weighting to be placed on income streams accruing to different beneficiaries. Who should determine this critical and value-judgment loaded parameter? At first sight, this is an appealing argument. However, it is apparent that a quantitative target contains the same problems of value judgments. A more compelling argument against social weights is that it is difficult to assess the consequences of different sets of poverty weights in terms of their impact upon a portfolio of projects and the resulting direct benefits to the poor.<sup>1/</sup> For the practical man, the target has appeal, precisely because it is expressed directly in terms of consequences rather than in terms of a mechanism designed to achieve certain goals.

---

<sup>1/</sup> The distinction between direct benefits to the poor and the social weight to be placed upon indirect benefits is the crux of the difference between targetsetting as proposed by Mr. Stone and the project evaluation approach. The concern with direct benefits assumes that other benefits have a social weight of zero. This is clearly an untenable position given the importance of public savings and indeed even private savings, neither of which count as direct benefits.



## II. Targetsetting in Rural vs. Urban Areas

We accept that the case for the use of targets is very strong, if not unassailable, for service projects of the type referred to above. For other projects, the argument for targetsetting seems much stronger to us in respect of rural than of urban projects. The reason for this is that the criteria which might be used as cut-offs include essentially only the benefits which accrue directly to the poor. For rural projects, it seems likely that this captures a large part of the benefits which accrue to the target groups--small farms achieve access to more productive land (through more water, or seeds, or fertilizer or whatever) which generates income streams for them. It seems unlikely by contrast that (apart from service projects) the urban poor can be reached so directly. The overall level of economic activity, trade and tariff policy, how the capital market functions, migration from rural areas and the like are probably major determinants of the welfare of the urban poor. Again, the indirect employment effects of a port project, for example, which might stimulate trade may be more important than the direct employment generated in its construction. We note that conventional project appraisal techniques set out explicitly to capture many of the sources of indirect benefits, the valuation placed on savings generated, being amongst the most important.

To summarize the line of argument, we conclude that there may be a use for targetsetting in rural areas: benefits accrue largely directly to the target groups, the usual apparatus of economic analysis is less than fully applicable to subsistence agriculture at an early stage of

development, and it is evident that "trickle-down" effects are not very important. By contrast, ameliorating urban poverty (apart from service projects) will have to rely far more on overall economic policy and upon indirect effects than upon the direct impact of particular projects. Moreover, the apparatus of economic analysis is much more applicable here. Indeed, if more employment is seen as one way in which to help the urban poor, then the injunction of "getting the prices right" and using shadow prices in investment decisions is much more important than targetsetting.

*I agree but  
agree and  
is perfect and  
it cannot be  
monitored  
was able to  
do with  
project.*

### III. Forms of Targetsetting

However, it may well be the case that there is irresistible pressure for some form of urban targetsetting or of monitoring applying to the nonservice-type projects (for which, to repeat, we agree that targetsetting is necessary). We turn therefore to a brief consideration of some candidates for a monitoring system.

Our first preference would be for the systematic use of Squire-van der Tak criteria for the selection, design and appraisal of projects, combined with some form of management information system. One such management information system might be to measure the proportion of direct benefits which accrue to the "poor", however defined. It is conceivable that projects selected through evaluation with social weights would yield a proportion of direct benefits which is deemed unacceptably low. In this case it would be necessary to increase the weight placed on the distributive impact of projects in order to achieve the right proportion. Again, some direct intervention may also be necessary, particularly in



the sectoral composition of urban lending, e.g., fewer heavy industry projects and more light industry projects.

Our second preference would be for a monitoring system which required that x% of the benefits of our urban lending accrued directly to the urban poor. This measure, or criterion, has all the defects of a "direct action" target in a situation where indirect effects are very important. Further, it takes proportions as criterion. Consequently, for two projects of the same size, it discriminates against a project which yields higher benefits to the poor if it also yields proportionately even greater benefits to the non-poor. It has the advantage that it is conceptually similar to the criterion used for rural development lending, and consequently holds open the possibility of an economy-wide approach.

The third preference would be for a capital-labor ratio criterion, as proposed in Mr. Stone's memorandum. The particular form of that criterion has been effectively criticized in a number of papers. <sup>1/</sup>

Our concern is, however, more that the approach is inappropriate. It classifies all projects wholly into one or other of the "poverty"- "non-poverty" categories. Most projects typically "benefit" a whole spectrum of people at different income levels and, therefore, it is the distribution of these benefits that determines the "poverty orientation" of the project. The authors of the present proposal recognize this in dealing with urban service projects. Applying the same approach to other projects, we could say that lending is poverty oriented according as the benefits generated by a project are divided into benefits accruing to poverty and non-poverty groups. We

1/ The separate comments by Messrs. Gilmartin and Little on Mr. Stone's memorandum cover this ground admirably.

Not  
So

could state that the porportion of total benefits accruing to the poverty groups when applied to the total lending for a project give us the component of lending for that project which is directed to the poor. This can be aggregated across projects to give total lending directed to the poor.

Further, the connection between the capital-labor ratio and the poverty-alleviation effect is by no means obvious. The employment generated may or may not accrue to the poor, in part or in whole.

*Can't  
agree  
it this*

IV. Conclusions

In our view, the preferred alternative described in III above provides a system which is basically consistent with economic rationality. It is likely to be more difficult to implement than the simplistic system proposed by the Urban Task Group but if we are serious about program implementation, this is a worthwhile investment. We note that the project evaluation procedures recommended by Squire and van der Tak is currently being applied experimentally in a number of Bank projects. The system proposed by the Task Group gains the advantage of easy implementation but only at the expense of not being worth implementing.

?

*Given a number of things, a statement. I'm interested*

The Bank has a responsibility to adopt and promote sound practices of economic management. This is not only because the Bank is often a "leader" in recommending practices for application in member countries but also because its concern with poverty alleviation is likely to be subjected to careful scrutiny by skeptics. It should not, therefore, accept spurious mechanical approaches to decision making.

*in getting a high shift in urban, leading pattern report*

(A)

With respect to urban poverty, we suspect that attempting to im-plement a new and complex monitoring system may not be worthwhile. A practical proposal would then be to set and monitor simple targets for

*lowest basic needs and labor intensive, employment creating investments*

*come on - we do it all the time & so does everyone who has a job to do.*



urban services lending, to encourage a more innovative approach in lending to industry and by DFCs to encompass sectors presently not lent to.


I'm willing to  
make all the academically  
~~the~~ correct noises and  
put a lot of effort into  
it too. — but I want  
you shift right away.

Any project that meets  
the "mechanical" targets  
but which can't pass  
muster by the C-M method  
is not a viable project.

## OFFICE MEMORANDUM

OCT 18 REC'D

TO: Mr. John Holsen

FROM: Guy Pfeffermann 

SUBJECT: Mr. Jaycox' request for country data

DATE: October 15, 1976

I distributed Mr. Jaycox' memorandum addressed to you on October 4 ("Urban Poverty Program Target Population") to the country economists in the department. I am afraid neither they nor I understand what the table means. We are particularly puzzled by the use of proportions pertaining to Brazil in Paraguay, to Ecuador in Peru, to Mexico in Haiti, etc... Nor do we understand some of the headings (e.g. what unit is used for "1/3 national average income"; what is meant by "per capita T.P.I."?). Under these circumstances I cannot make any intelligent comments on the adequacy of the data submitted to us by CPS. I should be grateful for guidance.

cc: Mr. Lerdau  
Mr. A. Stone ✓



<b>ROUTING SLIP</b>		<b>DATE</b> 10/13	
<b>NAME</b>		<b>ROOM NO.</b>	
Mr. Jaycox		D630	
<i>Mr. Stone</i>		OCT 29 REC'D	
<i>Have you reacted to this? If not please</i>		<i>Set up a meeting with Van der</i>	
APPROPRIATE DISPOSITION		NOTE AND RETURN	<i>Meer</i>
APPROVAL		NOTE AND SEND ON	
COMMENT		PER OUR CONVERSATION	
FOR ACTION		PER YOUR REQUEST	<i>etal</i>
INFORMATION		PREPARE REPLY	
INITIAL		RECOMMENDATION	
NOTE AND FILE		SIGNATURE	<i>[Signature]</i>
<b>REMARKS</b>			
<u>URBAN POVERTY</u>			
<p>I am attaching comments by Mr. Nowicki on your memo of Sept. 14. I am in full agreement with Mr. Nowicki's main points concerning <u>a priori</u> earmarking of portions of the lending program (para. 7) and the validity of the statistical methods proposed (paras. 8, 9, 10 &amp; 11). We may have further comments at a later date.</p>			
<b>FROM</b>	<i>[Signature]</i> S.M.L. van der Meer	<b>ROOM NO.</b> A813	<b>EXTENSION</b> 5906

## OFFICE MEMORANDUM

DECLASSIFIED

JUN 17 2015

WBG ARCHIVES

TO: Mr. Suitbertus M. L. van der Meer

DATE: October 12, 1976

FROM: Alexandre G. Nowicki

CONFIDENTIALSUBJECT: Programming Urban Poverty

1. Mr. Jaycox's memorandum of September 14 was sent to me by Mr. Lerdaun for comments. I regret that I could not comply with the requested deadline for comments. However, I believe that the discussion of this important memorandum which has barely begun will carry well into October.

2. In the meantime, I received a copy of Mr. Gilmartin's note to Mr. Jaycox dated September 27 which you no doubt read. I find Mr. Gilmartin's arguments most convincing and they relieve me from my original intention to write exhaustive comments. I am, therefore, confining myself to only two issues. The first bears on the differences in countries' attitudes to the poverty problem. The second refers to statistical traps hidden in the proposed method.

3. The direct Bank lending which could generate definable benefits to the urban poor is no doubt an excellent idea. It is a particularly valuable idea in countries where either the Governments do not have adequate resources to do so or where the Governments pay only a lip service to improvement of the welfare of its poorest population, while in reality continue to support the richer strata. In both cases when the transfer of resources from the Bank is earmarked to the urban poor the Governments' difficulties or reticence would be circumvented and the target group should directly benefit from it. In both these cases the discretion as to how to orient the lending program in order to maximize the benefits to the urban poor was hitherto left to the Program Departments.

4. If I understand Mr. Jaycox's paragraphs 25 and 26, this flexibility might be taken away from Program Departments. The danger of its removal could be that in specific circumstances, while our lending may show that it helps a larger number of the urban poor directly and within a short-term period, we may at the same time forego an opportunity to help an even larger number of urban poor indirectly and durably, because of setting it within a long-term perspective. To support my arguments for this flexibility, I would refer again to the two groups of countries mentioned in the preceding paragraph. In the first group the Governments do not assist adequately the urban poor - although they genuinely are interested in their lot - because they are impeded by the lack of resources. One may imply, therefore, that in a great many of these countries development priorities, for which financing is available, are set in such way that all preconditions for the improvement of the living standards of the poor - infrastructure, public utilities, industries - will be met sequentially. Furthermore, in these countries the urban poor may be also assisted through gradual increase in current budgetary expenditures on education or health. Our country economists, when they analyze the economic situation of such countries do enquire into such issues and, wherever the Government developmental priorities are set in a way which may not be conducive to creation of employment or which is simply wasteful, they usually make their views and objections heard loudly and unequivocally.



5. For this group of countries the reorientation of our programs toward allocation of a sizeable portion of it - according to a generalized formula - to immediate and direct assistance to the urban poor does not imply that the overall increase in the lending program to these countries would take place. Therefore, in cases where the development strategy of the countries was found by our economists to be conducive to improvement of the standard of living of the urban poor, not immediately and directly but through a sequence of developmental steps, they will have to seek assistance elsewhere than from the Bank to accomplish these steps, because a part of the Bank fund would be pre-empted by direct assistance to the urban poor. The question is whether they would be able to find such assistance elsewhere. If this does not prove possible the danger is that the urban poor may lose even more in a long run - through a lack of supporting conditions - than they would gain in a short-run - thanks to immediate relief prospects.

6. The situation is different in the second group of countries where the Governments are much less concerned with the conditions of urban poor. There our economists normally confront situations which may show that, firstly, the social and economic legislation and related policies are traditionally and sometimes heavily slanted toward the richer strata of the population and that, secondly, Governments, while generally interested in promoting developmental projects, are interested in those, at least partly, for the sake of various power groups. This does not necessarily imply that this is done to assist the ruling fifteen or two hundred families but often simply implies regional or sectoral pressures. Our policy in these countries is, among others, to try the utmost in order to change the existing regressive legislation. Here, perhaps inadvertently, we are still following the two centuries old precept of Jean-Jacques Rousseau "C'est précisément parce que la force des choses tend toujours à détruire l'égalité que la force de la législation doit toujours tendre à la maintenir". This is no place to interpret Rousseau except for stating that it is still true that the force of circumstances tends continuously to militate against equality and that only appropriate legislation could prevent it. Therefore, if we obtain through our lending, even though this lending may not directly and immediately assist the poor, a change in legislation which will at first prevent the degradation of their relative status and later help to improve it, and if our lending in these countries would help the general economic development without, at the same time, favoring the top layers of its population, the Program Department might, for strategic reasons opt for this way to alleviate urban poverty. The negotiating power of Program Departments - and their influence on economic and social policies - would in such countries become much weaker if we make available a substantial part of our lending for direct urban poverty projects, in which the Governments may not have an immediate interest.

7. To sum up the above arguments we have, firstly, to accept as a starting point, that Program Departments are genuinely interested in designing their lending programs so as to assist the poor population in each country, whether urban or rural. Secondly, we have to consider that because levels of development, economic policies and intentions of Governments differ from country to country, the means to achieve the goal (or a strategy) of helping the urban poor must be tailored individually. Such strategy may become unduly constrained if a sizeable portion of the lending program is a priori earmarked for projects which are designed to help the urban poor immediately and directly.



8. My other doubts relate to the statistical methods to be used in the programming exercise, suggested by Mr. Jaycox. The matter here is more than of academic importance, because these methods are to underpin the future "earmarking". For instance, the statistical assumption to be applied in calculations of the size of the target population is that those of urban dwellers who are receiving incomes below one-third of the average national per capita income could be considered as absolutely poor. To simplify, I am disregarding here the suggestion that a prior adjustment is made of the per capita income by applying to it a price relation between urban and average living cost. If this general assumption is accepted, the size of the target group would depend on the income distribution pattern. Thus in countries with a higher average per capita income but with an unequal income distribution we may end up in helping quite a large number of relatively well-to-do people while in countries with a low average income and a reasonably equal distribution we will use our direct lending to assist a rather limited target population. The simplified matrix below could explain it better.

Country's Income/ Income Distribution	Higher Average Income	Lower Average Income
	Number of persons assisted (target group)	
Equal Distribution	1. Few poor	3. Very few very poor
Unequal Distribution	2. Many not so poor	4. Great many poor

9. Therefore, if the statistical approach suggested in Mr. Jaycox's note is accepted, we may end up by helping the urban poor in rather unjust proportions from country to country. It is the countries with equal income distribution (boxes 1 and 3, above) although obviously deserving, will be unfavorably treated, while box 2 will benefit from the exercise although it is precisely there, where the change of legislation might help more.

10. Another statistical doubt arises with respect to the relation to be established between the capital intensity and savings. There exist, certainly, many countries where savings are higher because of the high capital intensity of production mainly for the reasons inherent to this type of production function. A high capital intensity implies a proportionately higher return on capital (in terms of the volume but not necessarily a margin of profit) and enables entrepreneurs to contribute proportionately more to savings than in the labor intensive version of the production function. Often such countries' unemployment is also high. If we then accept, as implied, that in these countries the high capital intensity is given - and consequently justified - and are ready to support it with our loans, we would unavoidably fall into the trap of a circuitous reasoning.



To put it simply - it isn't the high saving which permits high capital intensity (after the labor reserve, at a given price, was exhausted), but it is the capital intensity which permits creation of high savings and maintains high unemployment. In turn, this high capital intensity might have been uniquely determined by an unalterable sectoral technology. Such logical traps are not unknown in situations where an excessively rigid mechanistic approach is introduced.

11. A vivid example of such situation is, for instance, the capital cost per job quoted in Jaycox's memo as obtained for Jamaica (\$15,600), a level which could qualify the project as a poverty oriented one. I did not have time to investigate the issue more closely but my guess would be that a very high average capital intensity in Jamaica is due to high capital costs of technologies applied in its principal activities: bauxite, sugar refining, and hotel industry. This average is, therefore, attributable to a specific comparative advantage of Jamaica, which shifts the production function toward a higher capital intensity. Why should this specificity be taken into consideration when calculating the capital intensity of projects designed to assist the urban poor? Similar statistical traps are set up in all countries where a dual economy still exists, or where a specific sector has a comparative advantage in using capital intensive production methods.

12. Boiling down to one statement what is said above, I would say that an honest and unequivocal country-specific economic analysis, an appropriate development strategy and a comparative advantage-oriented sectoral and project analysis, all underlying a lending program which is used as a platform for negotiations with the Government especially when these are supported by Bank negotiators' genuine concern for poverty, may, together, help the urban poor more strongly, more durably and more efficiently than a few over-generalized mechanical rules.

cc: Messrs. Lerda, o/r  
Holsen, o/r  
Gilmartin  
Goffin  
Wyss  
Glaessner  
Pfeffermann

✓ also Task 1

# OFFICE MEMORANDUM

OCT 12 REC'D

TO: Mr. William Gilmartin, ASNVP

FROM: Norman L. Hicks, ASADA *NLH*

SUBJECT: The Estimates of Poverty or The Poverty of Estimates

DATE: October 11, 1976

I discussed Mr. Jaycox's memo with Miss Atwood of the Urban Projects Department in order to decipher how the estimates for urban poverty were derived. It appears that since our department has done its homework, the poverty estimates are based on the nutrition approach outlined in Mr. Jaycox's memo of April 20. The 1/3 national income average and 25% threshold levels are inserted as a guide to be used for countries where better estimates are not available.

For Pakistan, the figure shown in the table is wrong. The correct number should be 7.95 million urban poor, or 42% of the urban population. The 42% figure is based on the methodology of my memo of June 17, which corrects for the error of using household data and assuming a constant number of people per household for varying income classes. The estimate for Pakistan using the original Jaycox methodology was 30%. Unfortunately, the numbers for India, Burma, Nepal and Sri Lanka appear to be based on this methodology and therefore understate the level of poverty. The estimates for Bangladesh are based on what I would call the Gilmartin methodology which means finding the level of income at which people actually do consume a nutritionally adequate diet. If this approach were used in Pakistan the poverty level would be raised to 48%. In summary, the table is constructed using widely varying methodologies between countries, thus producing results which are inconsistent and unreliable.

cc: Messrs. Pilvin  
 Cleaves  
 A. Stone ✓  
 Wolfe  
 King  
 Atwood



*Copied to Mr Stone*

## OFFICE MEMORANDUM

TO: Mr. Edward V.K. Jaycox

DATE: October 11, 1976

FROM: Hans Pollan *4*SUBJECT: Programming Urban Poverty

1. At this stage, I see little value to join the argument about whether the approach and formulae suggested in Mr. Stone's memorandum of September 14 give us a useful or a counter-productive tool in defining the UPP target groups or for programming our work. I find extensive appeal in the line of thinking advanced by Mr. Gilmartin in his September 27 note, a sentiment which comes also through with vigor in the attached notes of several EMENA staff concerned.

2. Since it is clear however that nobody who worked up, or is opposing, the contentious formulae has invented the "squaring of the circle" and since furthermore Stone's unit needs some yardstick for, I am sure, a very preliminary approximation in identifying target groups, we, in EMENA, will try to work as well as we can with the tools as now offered or eventually prescribed.

3. But two other aspects need to be borne in all of our minds:

(i) the formulae, as they now stand, are only a prop to get us going. You know, that EMENA is aiming at several quite early UPP endeavours (see my note of May 11), and as soon as we have a measure of an empirical handle, country/sector/and likely city-specific, we will not hesitate to develop different criteria. The possibility is therefore real that the so-called props may fall by the wayside;

(ii) whatever use is made of the material gathered with the help of some formulae is not to confuse the staff actually dealing with UPP lending as if they were to read staff guidelines.

4. To sum up, the moral of the story is that we should get on with the top priority in UPP, i.e. move on with the intended projects. We will also be glad to support the efforts of Stone's unit (as per his October 4 note) to work up an overall picture of the Bank's 1976-80 urban lending program. (As I am on mission, Mr. Dubey, my alternate, will deal with the latter for EMENA.)

cleared and cc: Mr. Dubey

cc: EMENA Directors, Assistant Directors, Division Chiefs.

## OFFICE MEMORANDUM

TO: Mr. Hans Pollan

DATE: September 27, 1976

FROM: James J Fish *JJF*SUBJECT: Urban Poverty Programming - Memo of September 14

Due to the short time to consider this complex paper these comments are not as comprehensive as I would wish, and probably not constructive, but initial impressions are:

1. My basic comment on this proposal is the same as that for similar proposals on rural poverty et. al. i.e. while increased attention in investment to benefit this target group is probably a laudable objective and should receive more specific attention in macro economic planning, what magic is there in Bank money that makes it an essential objective "to increase the share of Bank investment spent directly ... on the urban poverty group" (para 9)? If it is other than self-aggrandizement, it is well hidden in the paper. In other words, are we really convinced that setting targets for Bank lending here is the key to improving the lot of this target group? Assuming the answer is yes, which I seriously doubt, then the following comments might apply:
2. The target definition concentrates on direct investment and therefore presumably excludes secondary benefits of e.g. infrastructure investment (we get no UPP "credit" for investment in a power plant, the output of which would serve urban expansion of which say, 50% is small industry?) -- if deliberate, I wonder why? In the footnote example on page 3, what ultimate difference does it make whether the Bank finances the water distribution system, or the supply and treatment facilities -- so long as we are satisfied with the total investment program and the total comprehensive project?
3. Is it really going to be practical to establish Bank lending targets on a country (or city) basis in the absence of detailed assessment of need and more importantly, of the minuscule impact which direct Bank lending can have on the total need?
4. Are we trying to shift Bank criteria or not? On the one hand, para. 7 states that "(the objective) will require determined efforts to re-orientate (sic) much of our existing lending practice", yet para. 9 says "we do not want to replace or modify existing first order criteria" -- really? how possible not to?
5. I think that part of the paper which deals with the definition of the target group and the rationale for focussing on investment needs and limits (affordability/replicability criteria) is good, but the planning, programming and monitoring procedures outlined in the rest of the paper have direct implications on staff time (and our specific lending program) which need careful assessment before this proposal is taken any further.

cc: Messrs. Knox, Russell  
EMENA, Division and Chron. Files

JJFish:ms



## OFFICE MEMORANDUM

TO: Mr. H. Pollan

DATE: Sept. 27, 1976

FROM: A.E. Lachman *ell*SUBJECT: Urban Poverty Program Implementation

Since there was little time today to discuss the CPS memorandum on the above subject of September 14, you may wish to get my principal reactions in writing.

It is, frankly, appalling that the end of helping the urban poor improve their condition justifies the means: the fabrication of formulae based on non-existent and/or inaccurate data. It would be more honorable to admit, first, that we have great trouble defining the target group; secondly, have even greater trouble determining the ways and means of reaching the urban poor; and thirdly, therefore, no matter how desirable above two elusive objectives, it will take more time to devise the means of accomplishing them. Instant gratification of a good idea is as puerile as any other instant gratification. A little humility concerning our ability to implement urban poverty programs would be more appropriate.

Since the writer of the memorandum pays lip service to the "first order criteria of Bank financing of projects" in para 9 of the memorandum, I very strongly object to his paras 17 through 21 on targets. This objection is essentially bureaucratic. Once regional targets are established, failure to reach them will have to be explained. The setting of sector specific targets for each of the key sectors will put our entire program in a straight-jacket which will effectively replace or modify existing first order criteria for Bank financing, including economic and financial efficiency, national priorities, institutional viability and technical soundness, to quote para 9 of the memorandum. Particularly shocking is the extraordinarily mechanical way in which regional lending targets should be determined.

The formula described in para 14 is anything but simple, as claimed in para 15.

Now a couple of minor comments: (a) Does it not sound rather sinister and dictatorial that UORSU plans to "promulgate" appropriate reports on a regular basis in para 23? and (b) I find it rather baffling that 32 education projects amounting to \$348 m are "urban related", while 21 such projects worth \$351 m are "urban poverty designated". Hence, the relationship between the dollar amounts of the latter to the former exceeds 100%. Nor do I understand why only about half of the urbanization projects (number as well as dollar amounts) are "urban poverty designated".

I'm sorry I have no "constructive" suggestions to make, but that is not exactly surprising, when you deal with a quagmire.

AELachman:rbc

cc: Messrs. Knox, Dubey



## OFFICE MEMORANDUM

W. Pollan

SEP 27 Recd

TO: Mr. Vinod Dubey, Chief Economist, EMENA Region

DATE: September 27, 1976

FROM: Christian Merat<sup>CM</sup> and Ram Chopra<sup>RC</sup>, Senior Economists, CPD-II EMENASUBJECT: Programming Urban Poverty

1. We have reviewed Mr. Stone's rather confusing memorandum of September 14 on the above subject. The following are our preliminary reactions.

General

2. The memorandum proposes (paras. 13-15) the use, for project selection, of a capital-cost-per-job test. As the paper points out, this test is an arbitrary operational compromise. It is not clear to us how this test relates to the more general van der Tak method of evaluating the benefits of projects. It is quite feasible for this test to lead to results that are contradictory to those arrived at by using the "efficiency prices" in the van der Tak methodology. The memorandum ought to clearly discuss the relationship between the proposed test and the van der Tak method, and it should also clearly indicate what should be done when the two lead to contradictory results.

3. A second general question arises concerning the setting of regional lending targets. The memorandum proposes (para. 17) a mechanistic formula for this purpose; namely, "the proportion of such lending in any regional program that should be poverty lending will be determined by the proportion of the urban poverty target group to total urban population". This formula would impose a straight jacket on the regions, irrespective of their special circumstances. At the same time, it would presumably enable regions to make offsetting changes among different countries' lending programs. Urban poverty lending, like all other types of lending, should above all be tailored to country circumstances. This important consideration is given passing and insufficient recognition at the end of paragraph 26 which says that "the resolution of independently determined regional/country targets and the sectoral targets will take place, as is the case now, during the CPP process". Clearly, additional thought ought to be given to the problem of regional lending targets and their relations to country circumstances and how the proposed system of setting urban poverty lending targets fits into the CPP process.

Minor Points

4. Paragraph 6 states that working estimates of target groups are being prepared by the Support Unit. The explanation of how this will be done in cases where insufficient data is available (in para. 6 and footnote 2) is not very clear. Paragraph 5 notes the further contribution of country economists in the estimation of target groups. No specifics as to how and when this is to be done are provided.

5. The memorandum was sent for comments to CPD Divisions. We will send you their reactions as soon as we receive them.

CMerat/RChopra:clm



## OFFICE MEMORANDUM

SEP 24 REC'D

TO: Mr. Vinod Dubey

DATE: September 23, 1976

FROM: Basil G. Kavalsky *BGK*SUBJECT: Programming Urban Poverty Lending

1. It is difficult for a regional staff member to remain cool and calm in the face of a memorandum such as this and focus solely on the substance of it. The paper is essentially a proposal to institute targets for urban poverty lending by region and to monitor the lending program to insure that these targets are achieved. It underscores what is rapidly becoming a CPS credo - that regardless of how unreliable the data base, or how arbitrary the methodology, it is always better to have a quantitative measurement than to rely on the intelligent judgment of those who are most familiar with the country or the project. The imperfections of the data and the approach are often conceded, but the argument is made that unless we make a start, how can we improve and refine our measurements? If it is then suggested that a start might be made with a few selected situations where the problem looms largest and the data offers hope of doing something sensible, this is resisted since it would not generate eye-catching global aggregates.

2. The memorandum proposes the establishment of regional targets for urban poverty lending. It is not at all clear what sense it makes to establish such targets at the regional level rather than at the country level. Is it really useful that we get the aggregates right if we do a lot of urban poverty projects in countries where it is a minor problem and none where it is a major problem? How is the target to be established? At the moment the regions have made projections which simply reflect a judgment that particular projects will help the urban poor. Is the monitoring going to be simply a matter of rewarding good initial guess-work, or will new "objective" criteria be developed? If say, 20% of the urban population of the region is poor, what proportion of urban-related lending should be for urban poverty? And let us come back again to the question of who are the urban poor? The paper proposes that the bottom one-third be so regarded. Taking the least developed countries whose per capita incomes are around \$100, this would mean \$33 or about 9 cents per person per day. Projects geared to this group would be projects for widows and orphans - a laudable objective but not very practical for the Bank.

3. Obviously the effect of all this will be to end up with a small group of countries where the urban poor constitute a serious problem. Perhaps for the whole Bank this would be no more than 20 countries - say about two to four per region. Let's take those countries and sit down and try to define sensible lending strategies for them. Let's monitor the implementation of those lending strategies not merely in terms of our intentions, but the impact they actually have on urban poverty. Let's examine the cost per job created as the paper suggests - not necessarily through some arbitrary economy-wide definition, but by comparison with other sectors and other projects in the country. Let's look at replicability but again not in a mechanical fashion. Curiously enough the proposal, though it is likely to be unpopular with the regions, is unlikely to

September 23, 1976

have a substantial impact on lending programs, since the regional program is large enough to allow adequate manipulation and cosmetics. I would guess that the major impact will be that a few telecommunications projects would go out, and a few water supply projects would come in. A far more important impact would come through examining selected country programs, seeing how they can be re-oriented and doing the associated in-depth preparatory and analytical work.

4. The memorandum must surely be regarded as work-in-progress. Almost every proposal rests on the shakiest possible ground. Yet it is presented with scarcely a caveat. Indeed it wears the word "arbitrary" like a badge - as if to concede that something is determined arbitrarily is to justify it. Urban poverty projects aren't something which has to be forced down the region's throats. We share the concern and are eager to do something in this area. In our own region this week proposals have been made for re-orienting the lending program in a much more substantive way than would come about through the introduction of centralized monitoring of quantified targets. Yet we are moving cautiously. We need help in developing projects and programs which are responsive to the needs of the urban poor. Surely this is the function that CPS should be serving.

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\* A small point - there is an error in Attachment 2 in which the Urban Poverty designated projects in the Education sector are shown as having a larger amount than all Urban related lending for Education.

BGKavalsky:cb

cc: Messrs. Paijmans, Moreau, Köpp, Aiyer, Humphrey, Kaji, de Lusignan



*Mr. Dinkhof*

## OFFICE MEMORANDUM

r. Guy de Lusignan

DATE: September 24, 1976

M: S. El Serafy *ES*SUBJECT: Urban Poverty Program Implementation

1. You asked for my comments on the September 14<sup>th</sup> memorandum from Mr. Alastair J. Stone (Chief, Operations Review and Support Unit, Urban Projects) to Mr. Edward V.K. Jaycox (Director, Urban Projects, Central Projects Staff.)

Exposition

2. If my understanding is correct this paper is intended as a progress report on the activities of the Urban Poverty Task Force which is trying to alleviate urban poverty through the choice and design of "urban projects". This is being sought by means of:

- (a) defining an urban poverty target population;
- (b) proposing as criteria for bank lending for this purpose:
  - (i) projects creating low capital cost employment;
  - (ii) projects "which produce goods and services to meet the basic needs of the poor";
- (c) determining that portion of the regional lending programs which should be allocated to directly benefit the target group;"
- (d) attempting to combine urban poverty-oriented criteria with "sectoral or overall lending targets"

3. Some progress seems to have been made in defining the target population for urban poverty programs and projects as "all urban dwellers in absolute poverty or with incomes below one-third of the average national per capita income" after the latter had been inflated to reflect urban/national living costs differentials. "Absolute poverty" measurements by country economists (based on costing of a basic diet and non-food basic needs) seem to have been disappointing (too few countries have been covered and data have been deficient.) A memorandum is promised in two weeks, building on the information acquired from the Regions to define the urban cost of living inflator, the threshold income of the target group in urban areas and eventually the number of people in this group.

Mr. Guy de Lusignan

4. The paper seems to recognize the fact that poverty oriented projects which do not directly promote production and employment would be seen as transfer measures to promote "welfare" among the poor, and introduces the infelicitous concept of "affordability/replicability" as a criterion for project selection. Apparently (the paper claims) it is important before a project which caters for a small proportion of the urban poor is selected that the country or the city should be able to "afford" the extension of the services of similar projects to all the target group.

5. The paper attempts to elaborate this concept further: "Put simply, the test of affordability is that the costs of the service or benefit provided in a project are less than or equal to what the poor are able and willing to pay..." And in case prices are charged which are lower than average costs it would be within the capacity of the city/State to accord such subsidization to all the poor over the long run.

6. Defining what constitutes "urban-poverty" projects the paper enumerates:

- (a) Sites and services, slum upgrading, water distribution, schools etc. with an element of urban poverty orientation (i.e whose benefits accrue to people in the target group.)
- (b) Services such as transport to the extent they are produced at "costs and prices the target population can afford and there are no supply conditions which bar access to the poor.
- (c) Projects (including food industries, clothing and housing for rent) that result in the production of "basic goods and services for the target group at a cost below prevailing costs."
- (d) Other projects with an employment impact on the target group.

7. The paper goes on to propose a formula for identifying employment-creating projects which would qualify them as poverty oriented. Projects should be so judged if (using my own notation)

$$\frac{K_i}{L_i} < 2 \times \frac{\Delta I}{\Delta L + 0.067 L}$$

where  $K_i$  is the present value of the capital cost of the project  $i$ ;  $L_i$  the number of jobs created by it;  $\Delta I$  the incremental gross domestic investment in the economy;  $\Delta L$  incremental jobs created in the economy; and  $0.067L$  an adjustment factor to allow for capital depreciation.



September 24, 1976.

8. And yet, other projects would also be judged to be urban-poverty oriented if they result in "substantial" policy or institutional changes "which correct or substantially mitigate economic distortions with respect to opportunities for production and consumption by the urban poor."

9. Once the target group had been defined, the paper claims that operational targets should be set within the various sectors so that the projects selected would alleviate urban poverty. It is admitted that little progress has so far been made in the Bank in this regard, and the CPS departments are being urged to give more positive assistance. As to the Regions, a good first start has been made but not by LAC and South Asia. The paper maintains that the poverty criteria here elaborated should be used in forming the current 5-year lending program.

10. An Urban Poverty Program Information System is being proposed to collect information, be a vehicle for promoting work on urban poverty, tilt the lending program in favor of urban poverty targets and to "keep track" of Bank lending within cities receiving a concentration of Bank lending. "The resolution of independently determined region/country targets and the sectoral targets will take place, as is the case now, during the CPP process."

#### Comment

11. There is little doubt in my mind about the good intentions of this paper. All the objectives being pursued (e.g. services to the poor, employment creation etc.) are, to say the least, worthy. However, I find the entire approach of the urban poverty program very unsatisfactory. Alleviation of poverty (or promotion of welfare) is after all nothing less than the whole subject matter of economics, and economists have been working very hard to devise ways and means for the appraisal of projects combining criteria of efficiency with those of social justice. The paper appears to be unaware of these project selection criteria and addresses itself to rules of thumb which may be useful in some ad hoc situations but clearly fails to bring rigor to the selection of projects. I would maintain that greater benefits would accrue from using an integrated cost-benefit approach (such as the Squire-van der Tak one) than from the unsystematic quantifications suggested in this paper which only serve to produce impressions. I would put more trust in a method which calculates economic and social returns to investment than in one which proposes a reconciliation (in the choice of projects) between poverty targets and sector targets through the CPP process.

12. I must also confess a certain reluctance to accept the definition of target groups as a fruitful exercise. This appears to be a crude initial measure which remains fundamentally a cul-de-sac leading nowhere in particular (paragraph 3 above).

OFFICE MEMORANDUM <sup>③</sup> *Return to me*

TO: Programs Division Chiefs, EA&amp;P Region

DATE: October 7, 1976

FROM: F. H. Howell *F. H. H.*

OCT 08 REC'D

SUBJECT: Urban Poverty Program

1. You will recall that on September 28 I sent you a copy of a memorandum on this subject written by Mr. Jaycox.
2. We are now being asked to update and extend the estimates you made earlier this year of the impact our lending program will have on the urban poverty group. To this end, Alastair Stone has written a note dated October 4 (just received today), the text of which is attached. Accompanying it were about 1.5 inches of xeroxed computer printouts, most of which I have in my office available for your inspection should you wish to see them. I also attach a copy of the Jaycox memorandum of October 4 on target population, referred to by Stone.
3. Finally, there is attached for your countries a copy of "Report 2-1" referred to in Stone's paragraph 2. This report contains the data he is seeking to have updated and projected one more year. Please observe his deadline of October 22 for returning the marked-up sheets.
4. Last week Heinz Vergin and I had a talk with Stone and Lethbridge about the role of our Region in preparing the next report on progress in addressing urban poverty. I am confident they will be most cooperative and helpful if you seek the assistance Stone offers in paragraph 4 of his memorandum.

Attachments

FHHowell:ls

cc: Messrs. Kirmani  
Votaw  
Vergin  
P. Hasan  
Hawkins  
Bussink



also,  
Task 1  
✓

## OFFICE MEMORANDUM

TO: Files

OCT 08 REC'D

DATE: October 6, 1976

FROM: Frida Johansen, Economist, EA2DR

SUBJECT: Comments on A. Stone's Memorandum on "Urban Poverty Program Implementation"

1. The above-mentioned memo does not discuss how much should be allocated to the urban sector vis-a-vis the rural sector (para. 18). This rationale is covered in the Urban Poverty Interim Report (March 29, 1976) and in Notes on Urban Related Country Economic Work (S. Chernick, June 11, 1976).

2. Instead the memo attempts to define some main concepts:

(a) Definition of urban poverty target population:

The absolute poverty level, defined as the income below; the local cost of minimum nutritional and non-food requirements, or the relative poverty level, one-third of an average per capita income inflated by the ratio of urban living costs to average living costs. I think the first definition is better; if there is no data on absolute poverty, there will probably not be data for adequate estimates of relative poverty (living costs) either, so the second definition, even more so when considering the notional one-third correction, seems rather arbitrary. Once the income levels are determined, the number of people earning that or less should be estimated. In general there is no adequate information on these topics; in our region, rough measurements could be done only for three countries. But how important are these figures? The Bank is not in any case going to solve all the urban poverty problems, and for the ones it solves through specific projects, it will have the specific data that permit choosing and evaluating projects. The Operations Review and Support Unit, Urban Projects (ORSU) is preparing estimates for all countries.

(b) Method to determine the portion of the regional lending program that should be allocated to the urban poor:

The memo proposed that within a given allocation for the urban sector, proportions of lending to general projects compared to poverty solving projects, should follow the proportion of people above the poverty level, compared to the poverty bracket population. This seems to be too simplistic: (i) it does not consider government preferences; (ii) it considers the Bank as the only assisting agency; (iii) it supposes the benefits per investments to be the same in any project; (iv) it does not consider experience from past projects and current absorptive capacity.

So the regions will continue through their work to determine how much, and in which sub-sector, should be lent to the urban poor; in fact, already 40% of the proposed lending program 1976-80 for the E. Africa urban sector, is for the poor. Other criteria, such as which kind of projects and sub-sector specific targets, still need to be worked out, based mainly on the regional experience.

3. The additional work that the proposed "Programs Implementation" would mean to our Department is:

(a) country economists should measure poverty income levels and population falling in that category. (I think, however, that not too much time should be devoted to this);

(b) project officers should prepare a data sheet on proposed urban lending, as per Attachment 3 of A. Stone's memo.

4. The ORSU would prepare other data as needed (Attachment 4 to the memo), finalize more policy definitions with the region's assistance, and carry out the monitoring of urban projects.

FJohansen:med

cc. Messrs. Wiehen  
Hablutzel  
Stone ✓



## OFFICE MEMORANDUM

TO: Regional Urban Poverty Task Group Coordinators

DATE: October 4, 1976

FROM: Alastair J. Stone, Chief, Operations Review and Support Unit, URB

SUBJECT: Information on FY76-80 Urban Lending Program

1. Attached are summary reports based on information gathered by the Unit from the Regions concerning the location, sectoral breakdown, and potential for impact on the urban poverty group, of the lending program through FY80. I believe that you will find these summaries of interest and would welcome any suggestions that you or your colleagues may have as to how these reports might be made more useful for regional programming purposes.
2. In routine operation this information system will be updated by information received from the five-year lending programs, CPPs and individual project data sheets, as was spelled out in my memorandum of September 14. In order to get the system moving, however, we need to update the information contained in Report 2-1 to an FY77-81 basis and in a preliminary way to indicate the likely portions of this updated FY77-81 lending program which will be classified, under the criteria outlined in the September 14 memo, as urban poverty lending. Specifically, we need the FY81 lending program, and changes to the FY77-80 program, written out on one of the attached copies of Report 2-1 using the existing headings. Similarly, we need roughly estimated percentages of the loan amounts classified as urban poverty lending in the column now used for the UPL/UP2 designations.
3. The application of the criteria<sup>1/</sup> to classify the urban poverty lending is obviously difficult and rough indications is all we can and do expect at this point. For the first two years of the five-year lending program some data may be available to make informed judgements on project content but for the last three years of the program you should simply indicate the percentage of the loan amounts in projects that you are intending to design so that they contribute to the poverty program.<sup>2/</sup> For this exercise we recommend a minimum effort approach as the primary purpose is to develop

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<sup>1/</sup> Income thresholds pertinent to the criteria are under discussion (see Jaycox memo dated October 4, 1976).

<sup>2/</sup> It should be borne in mind that we are trying to shift our urban lending so that by 1980 the proportion directly benefiting the target population is roughly similar to the proportion of urban poor to total urban population or roughly 35-40%.

October 4, 1976

familiarity with, and a feel for, the system. It will obviously take two to three years to develop hard data for the system suggested and in the intervening period the numbers can only be indicative. With this in mind, I would appreciate receiving the marked-up Report (2-1) by close of business October 22. The new Report 2-1 plus updated versions of the other reports contained in the attachment to this memo will be returned to you shortly thereafter. This information will form the basis for our next status report to Mr. McNamara.

4. The staff of the Unit are available to explain in detail the process involved and to assist with the interpretation and updating of data. Please contact me (ext. 8088) or Nicolas Lethbridge (ext. 5413).

AJStone:dd

Distribution: Messrs. Pouliquen, Howell, Dubey, Bronfman, Glaessner,  
Rajagopalan

cc: Messrs. van der Tak (CPS); Ballantine (Education); Rovani (Energy, Water & Tele.); Fuchs (Industrial); Kanagaratnam (Population); Tolbert (Tourism); Willoughby (Transportation); Yudelman (Agric. & Rural); D. Gordon (DFC); Chernick (Pol. Plan. & Prog. Rev.); Zaidan (Prog. & Bud.)

Jaycox, Dunkerley, Churchill, Walters, Mould, Strombom,  
Venkateswaran, McCulloch (Urban)



## EXPLANATORY NOTES ON ATTACHED REPORTS

### SOURCES OF INFORMATION

1. The primary source of information was the ad hoc questionnaires, completed by regional staff, for all non-agriculture projects in the FY76-80 lending program as of April 1976. These gave detailed information on project types and locations. The secondary source was the preliminary Regional Urban Poverty Programs,<sup>1/</sup> which listed projects which might contain urban poverty lending. It should be noted that all but seven agricultural sector projects are entirely excluded.

2. Population estimates for cities and towns were gathered from country censuses or estimates from the 1975 Rand McNally Atlas.

### DEFINITION OF TERMS

3. Locational Categories: All projects or parts thereof have been classified into one of four categories according to location.

(a) Rural: Rural and agricultural lending is lending located in rural areas or designed to directly increase rural or agricultural output. This will not necessarily coincide with the agricultural sector lending since some of that may better be classified in one of the other categories (see below) and because lending in other sectors, such as rural water supply or education, should be included.

(b) Urban: Urban related lending is lending which is located in urban areas or has a definable and direct effect on consumption, production or access to land and services in urban areas.<sup>2/</sup>

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1/ Project-specific programs were not received from LAC and South Asia.

2/ In this exercise, URL lending was further divided into three sub-categories:

- (i) General Urban: it is known that projects or parts thereof will be located in or impact urban areas, but it is not yet known which specific cities or towns will be affected or the relative size of these urban locations;
- (ii) Cities: it is known that projects or parts thereof will affect identified cities or that they are likely to be in relatively larger urban areas; and
- (iii) Towns: it is known that projects or parts thereof will affect identified towns or that they will probably affect relatively smaller urban areas.

a/ Urban status and size will vary for each country. In Botswana, 20,000 pop. is a large city, in Brazil, 20,000 pop. is a small town. Urban areas have been classified into cities and towns on an individual country basis.



(c) National: Spatially distributed lending is lending whose direct impact is indiscriminate with respect to rural and other parts of the country or which is locationally non-specific. Much of current lending program is spatially distributed with examples to be found in all sectors, most notably education, telecommunications, transportation and some DFC projects.

(d) Unidentified: Unidentified lending is a temporary residual category used until projects are identified sufficiently to be classified into one of the above three categories.

4. Allocated/Associated Designations: Urban related lending amounts known to impact a specific urban location are "allocated" to that location. In addition, some lending is classified as spatially distributed or general urban and is designated as "associated" with specific cities. <sup>1/</sup> As an example, a DFC project in Ghana (3GHADDO1) has been classified as spatially distributed throughout the country, but it has also been associated with Accra, which it will likely impact (see description of Cities Report below).

5. Urban Poverty Project Designations: A UP1 designation was given to each project which had been identified by the regions as a project where an urban poverty element or emphasis might be incorporated. Project specific information on urban poverty programs was not received from LAC or South Asia.

6. A UP2 designation was given by the unit to yet other projects which although not identified in the Regions as having urban poverty overtones seemed to have that potential.

#### ATTACHED REPORTS

7. Project Listing by Country: Report (2-1). This report lists all projects and pertinent data, as just described. Column 7 gives the Total Project Cost where an estimate has been given. Columns 8 and 9 give the specific city or town and the proportion allocated to a specific location, or category (if the project is not directly allocated to a specific location). Columns 10 (Col. 9 x Col. 6) and 11 (Col. 9 x 7) are calculations of the allocated amount to each location or category. For a full overview, this report should be reviewed together with the Cities Report (see below).

8. Locational Report (1-2): This report gives totals in each locational category by fiscal years for each country, region, and the Bank as a whole. Actual amounts in each category as well as the corresponding percentages are included. Again, please note that agricultural sector projects (except 7 with identified urban-related portions) are excluded from the entire system.

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<sup>1/</sup> If a project is associated with 1 city, it has a 100% association, with 2 cities, 50% and 50%. Thus, these numbers are not actual allocations but rather associations.



9. Urban Related Lending, Urban Poverty Designation Report (2-2): This report gives information from the Locational Report on a regional basis.<sup>1/</sup>
10. Cities Report, Report (1-1): This report shows the identified urban locations and distinguishes between projects which are "allocated" and those that are "associated" (refer to para. 4 above). Column 1 gives the location as well as the per capita lending for each city by Allocated projects, Associated projects, and Total projects (both Allocated and Associated). Note that Column 2, UPP, gives both UP1 and UP2 notations, but the totals include UP1s only (see para. 5). Column 9 gives the proportion of each project allocated to or associated with the specific location. Column 10 shows dollar amounts thus allocated or associated.
11. City Rankings Report (4): This gives a list of identified cities and towns by region, with project numbers and loan/credit amounts, ranked in several different ways. Column 1 (Country & City Code) is an identifier and may be used in referring to the Cities Report to find the specific projects allocated or associated with that city.
12. Sector Report, Report (3): This gives a breakdown by sector within each region and for the Bank as a whole. Columns 4 through 7 show for each sector the spatial distribution of lending as a percentage of lending in the sector.

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<sup>1/</sup> For South Asia and LAC the report only shows UP2 designations since no project specific information was received.

## OFFICE MEMORANDUM

TO: Mr. J. Bronfman

FROM: William W. Lewis *W. Lewis*

SUBJECT: Urban Poverty Program Implementation

DATE: September 27, 1976

Since Philippe Nouvel will be away until September 28, he passed on to me the paper from Alastair Stone on Programming Urban Poverty. My comments follow; Philippe may have some comments when he returns.

The paper illustrates well the difficulty of defining the portion of lending oriented towards urban poverty, and I believe some problems remain with the proposals as they would apply to DFC and industrial projects. The paper states that "for DFC, industry and tourism lending ... the main contribution to urban poverty programs is expected to be in terms of the employment they create." The paper goes on to propose that a project would be considered urban poverty lending if its total investment cost per job were less than twice the result of dividing gross domestic investment by the sum of current growth in the labor force plus 1/15 of the total current labor force (this latter term being included to account for replacement of capital). The paper gives some rough figures for the cost per job below which a project would qualify for urban poverty lending. The figure given for Kenya is US\$1,700, which means that the "average" investment cost per job is \$850.

I find this figure for Kenya implausibly low for a criterion for selecting industrial projects oriented towards the urban poor. This criterion would limit industrial projects for urban poverty to the simplest woodworking, metalworking, and other craft activities. These small activities do not offer the prospect of solving a large part of the urban poverty problem of Nairobi, for instance; there is not sufficient demand for the output of these activities. They do have some place in the urban areas; however, they are much more important as generators of employment in secondary towns and villages. I would believe that in urban areas, larger scale enterprises would offer more hope of being established in the near future both to generate employment for the urban poor and to produce some of the essential consumption items for the urban poor. These larger firms can be organized more quickly and offer much greater total employment potential. Unfortunately, the technology available for most of these larger firms is more capital intensive than for some of the very small units. (These larger firms would employ up to say 50 people, have total investment costs of \$5-10,000 per job, and be classified as small and medium scale industries.) However, it is also clear that attractive opportunities exist for small and medium scale industries in Kenya at considerably lower investment costs per job than many of the large scale industries previously established or currently being considered.

One problem with the criterion being proposed may be that trade and other service activities are combined with manufacturing in setting the threshold. I believe that if the threshold were calculated for manufacturing alone according to the proposed rule, then the threshold would be higher and would perhaps place many small and medium scale industries into the urban poverty group.



The second comment I have is that for DFCs in Eastern Africa, many subprojects would probably not qualify under the employment criterion but do produce items which are consumed to a certain extent by the urban poor (for example oil seed crushing plants, large bakeries and textile plants). The paper does allow for counting these types of projects, and for some DFC's, the lending amounts for these projects will be significant.

cc: Gordon  
Hidalgo  
Nouvel  
Levitsky  
Stone, Urban Projects

WL/lj

## OFFICE MEMORANDUM

TO: Mr. J.A. Bronfman

DATE: September 27, 1976

FROM: *Esref*  
Esref ErkmenSUBJECT: Urban Poverty Program Implementation

I have the following comments to offer on Mr. Jaycox's memorandum of September 14.

1. I am somewhat concerned at the proposal that a fixed proportion of all urban-related lending will be "poverty lending." Should this percentage be high, it may well conflict with the aims of economic and financial efficiency referred to in para. 9. It may also have a substantial impact on water pricing policies.
2. I am not enthusiastic about the proposal to extend the Project Brief system to provide urban poverty data. For water supply projects, accurate information on urban poverty will be difficult enough to come by at appraisal; at the time of project identification it would be very unreliable and to update it at six-monthly intervals does not seem justified.

RReekie/atm



## OFFICE MEMORANDUM

TO: Mr. J.A. Bronfman  
FROM: Robert Reekie *RR*  
SUBJECT: Urban Poverty Task Group

DATE: September 27, 1976

As requested I attended the lunch with Mr. Jaycox. Others present were Messrs. Glaessner, Howell, Pollan, Pouliquen, Rajagopalan and Stone.

1. Mr. Jaycox reported that his memorandum of September 14 had been discussed at this morning's Operational Vice-Presidents' Meeting. There will be further discussions in Manila to determine the action to be taken. Although he no longer requires comments on his memorandum he would be pleased to have any inputs which the regions care to make. Data on the definition of the "Target Group" and acceptable level of investment per job created will be circulated tomorrow.

2. Mr. Jaycox reported that Mr. Stern, RVP S. Asia, was rather critical of the proposals. While he agrees with the increased emphasis on the problem of urban poverty he does not agree that the targets (in dollar amounts, as a share of urban lending) should determine the lending program for a country. He would much prefer to designate a specific number of projects as being aimed at the urban poor.

3. Much of the discussion centered on the difficulties of identifying the target group and quantifying the proportion of projects directed towards serving them. There was strong resistance to extending the project Brief system to include data on the urban poor.

4. It was agreed that similar meetings should be held monthly.

RReekie/atm

cc: Mr. E. Erkmen



# OFFICE MEMORANDUM

TO: Mr. Edward V.K. Jaycox, Chairman, Urban Poverty Task Group DATE: September 27, 1976

FROM: William Gilmartin, Chief Economist, ASNVP *WGS*

SUBJECT: Urban Poverty

1. Prescriptions to reduce urban poverty are as yet far from clear and precise. Consequently our approach, and that of the developing countries, to the problem requires flexibility, persuasion, experimentation and variety as among both sectors and countries.

2. It is disappointing, therefore, that the Urban Projects Department in its proposals of September 14, for so-called "Programming Urban Poverty" by the Bank, suggests a uniform and highly mechanical approach with appearances of relevance and precision, both of which are spurious.

3. Our reservations are not with the proposed definition of the target urban poverty population, which seems a simple and practical approximation, but question the value (para. 6) of the suggested further pursuit of definitional refinements. They certainly should not become a standard part of country economic work. *OK*

4. Neither are our reservations with the proposals regarding urban services and their poverty impact (as discussed in paragraphs 9-11) which seem conceptually satisfactory although their operational practicability still is not clear to us.

5. It is the remainder of the paper which gives us the greatest difficulty because of its ambiguity and, in our view, invalid conceptual basis. The ambiguity arises over the treatment proposed in "Programming Urban Poverty" for "production of basic products demanded by the poor" (grain?) and of the criteria for qualifying investments which create employment for inclusion in urban poverty lending. First, it is unclear how we are to "increase the share of Bank investment spent directly on increased production by and supply of basic needs to the urban poverty group" while, at the same time not wanting "to replace first order criteria... which include ... financial efficiency, national priorities, institutional viability and technical soundness". Second, it is unclear whether production by the urban poor and supply of basic consumption goods are equally desired objectives. Third, it is unclear whether the objective is only to define under which circumstances "good poverty" labels are to be attached to projects or whether the objective is to provide guidance on the design of projects to alleviate urban poverty.

6. In regard to the employment of the urban poor confusion arises from a quantitative formulation which pretends to classify investment according to that which generates employment for the urban poor as distinguished from other employment. Leaving aside for the moment the validity of this formulation, the range of its intended applicability is not clearly consistent in the memo; in some places it might be construed to be country-wide for the whole of national investment, in other places to be applicable only within cities, or otherwise unclearly placed somewhere in between

*This must be done same as rural investments are made relative to doubt it*

*why not?*

*Para 12 not important but completes the picture conceptually.*

*sectorally pre-determined (para 10) yes - further*

*generates employment at low capital cost*



("lending which is programmed to take place in urban areas 'or to be urban-related"). More important is the misconception of the attempt at a quantitative formulation of appropriate investment levels in employment creation which qualifies as urban poverty lending. The definition relates employment of the poor to low capitalization per job and this seems reasonable enough. But then it is proposed to set a quantitative limit of capital per job to qualify as an urban poverty project. The calculation is remarkable indeed. It relates the acceptable maximum of capital per job to the ratio of the annual increment to the total labor force (plus a depreciation factor) to the total gross national investment. The result tells the maximum which a country could afford to spend per additional job (taking account of all kinds of jobs in all places and all sectors) if the labor force increment were to be fully employed each year. It makes no allowance for the backlog of unemployed and the vast problem of underemployment which are as relevant to the poverty problem as increments to the labor force. If a formulation along the proposed lines were to include the backlog problem (unemployed and underemployed) the resulting permissible capital per unit of employment creation would be tiny indeed. The formulation also ignores changes over time. A higher capital cost investment in year 1 may be crucial to increasing employment of urban poor in subsequent years.

✓ OK?  
 why not?  
 upper limit  
 you can  
 go lower  
 if you  
 want -  
 if you can  
 set lower  
 limits "no  
 skills for  
 projects  
 in your  
 region.

How?  
 do we  
 know  
 what  
 you  
 are  
 doing?  
 what  
 part of  
 program  
 will go  
 towards  
 this obj?

7. This approach: However, even accepting these deficiencies one still is left to wonder at the relevance of the emerging capital-job optimum which is derived from a pattern of investment with a hodge-podge of capital-per-job characteristics ranging from, say, an oil refinery to a subsistence farm. The result is a number which might be relevant to a national effort at direct and current prevention of any increase in unemployment, but without regard to any other development objectives or their indirect employment implications. But this is not what we are concerned with -- certainly not in South Asia where development objectives are multiple and concerns are with longer term as well as current employment creation.

No

8. Hence, the questionable relevance of this formulation at the national level. What relevance it might then have, with its inclusion of rural and all other forms of investment, as a guideline to be observed in urban programs, and in the programs for particular cities, and for particular sector operations in a city seems less than self-evident. The only possible justification would be the notion that as a programming device any number, whatever its relevance, is better than no number -- a theory to which I do not subscribe. Again, the problem disappears if we are only concerned with labels, as has been suggested; but that cannot be the only objective of so broad ranging an effort.

little  
 affair  
 is  
 irrelevant

9. On this basis we are asked to define poverty-related employment creation, and to add this to the poverty oriented proportion of investment in urban services as a measure of the proportion of the urban lending program devoted to urban poverty. But this is not the last step in the mechanization process. A further prescription would be that the ratio of urban poverty to urban lending would be at least as large as the ratio of the urban poor to the total urban population. As a general guideline this seems reasonable enough (if we had poverty-related lending definitions that were operationally practical and relevant) although this again should have regard, as indicated, for other developmental objectives and their possible indirect poverty



*How do we take these into account?*

employment benefits. The latter may at times outweigh the priority of employment creation and other investment which has a direct poverty identification, and it is for this that we need flexibility to allow for regional and sectoral variety as well as judgments of priority. - *no question about it*

*agree*

10. I have one last but serious criticism of these proposals: they are exclusively concerned with the Bank and its operations as if there were no country considerations beyond Bank operations in an alleviation of urban poverty. There must be more to all this than just the Bank operations. At least as important, probably more so except for concern with the Bank image, is the problem of an effective country strategy for urban poverty and its place in a comprehensive strategy for the country's development. Perhaps again it would be more realistic and effective to weigh the relative countrywide priorities of immediate and direct urban poverty programming and longer term indirect inroads against urban poverty. This rather crucial broader country consideration in the Bank's concern with urban poverty is entirely missing from the Urban Projects Department's proposals.

*The subj of means is limited to this area - we have a lot to say about other areas - both - among.*

11. My suggestion is that we avoid these spurious appearances of a mechanical and precise approach to urban poverty operations, while at the same time recognizing the need for greater commitment to the objectives, as well as a more rigorous conception of means than at present. As an objective, and with recognition of possible other priority considerations, the suggested aim of the Urban Department for urban poverty lending which is as large in urban programs as the proportion of the urban poor in the urban population seems reasonable as I have indicated. As means toward this objective I think we must first delineate with some precision that part of each urban operation that has service and employment benefits for the poor. This can presumably be done without too much difficulty in the case of urban service projects. It is more difficult to deal with the share of project employment benefits that can be allocated to the urban poor. Here we would follow the lead of the Urban Department (part way) and accept the criteria of capital-labor ratios and our need to reduce these ratios in the interest of increasing employment benefits for the poor, but without attempts at precision about acceptable maxima or at applying this to all sectors. Perhaps this could be done by taking our present pattern of capital-labor relationships in urban projects and setting reasonable goals for their steady reduction. This, of course, could only practically be done by sectors for obvious technological and other reasons. Aggregate or cross-sectoral averages serve little purpose. Such an approach to the problem seems to me far more sensible and practical than that proposed in "Programming Urban Poverty". It has the disadvantage that only our progress toward employment of the poor through declining ratios of capital per job would be measurable and not the numbers of additional poor actually employed. But it is doubtful that such numbers could be produced in any case with any degree of credibility. In this area at any rate we might want to deal with what we can manage reasonably instead of committing ourselves to solve simultaneously all issues.

*agree*

*which*

*postpone until when?*

*agree*

*We are not applying a one size fits all policy in urban projects - we must distinguish between sectors which are in poverty and not.*

*unless get down toward the average we aggregate*

*the problem*

*Let's move part of our program into labor intensive areas of activity. - ie emphasize L.I. sectors.*




cc. and Cleared with: Mr. Ernest Stern

cc.: Messrs. Baum, van der Tak, Israel, Lee (CPS Advisory Staff)  
Ballantine, Hultin, Zymelman (Education)  
Rovani, Warford, Kalbermatten (Energy, Water & Tele.)  
Fuchs, Kalmanoff (Industrial)  
Kanagaratnam, Messenger (Population)  
Tolbert (Tourism); Willoughby (Transportation)  
Yudelman, Christoffersen, Turnham, Davis, Berg (Agric. & Rural)  
J. Adler, Blaxall, Wood (P&B)  
D. Gordon (DFC); Duloy (DRC); Avramovic, Stoutjeskijk, Keare (Dev.Econ.)  
  
H. Adler, Loh, Wiehen, Hablutzel, Barry, Bronfman (E. Africa)  
Gue, Pouliquen, Wright, de la Renaudiere, de Azcarate, Denning (W.Africa)  
Kirmani, Votaw, Hasan, Ruddy, Howell (E. Asia & Pacific)  
Picciotto, Rajagopalan, Blobel, Street (S. Asia)  
Knox, Pollan, Paijmans, Bart, Dubey, Finzi (EMENA)  
van der Meer, Glaessner, Lerda, Wiese, Holsen, Perez (LAC)  
  
Dunkerley, Churchill, Walters, Mould, Strombom, Venkateswaran,  
McCulloch (Urban Projects)

WGilmartin/rmh

THE WORLD BANK

ROUTING SLIP		DATE 10/11/76	
NAME		ROOM NO.	
Messrs. Jaycox/Stone		D-630 D-600	
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 <u>Re: Urban Poverty</u>			
<p>I was sorry to miss the meeting-lunch of last week. Although I understand you no longer require the "Regional" comments on your memo of September 14, I attach copies of some comments that were made by the Education, Water Supply and DFC Divisions.</p>			
FROM	J. Bronfman 	ROOM NO.	EXTENSION
			5536



## OFFICE MEMORANDUM

TO: Mr. J. A. Bronfman

DATE: September 24, 1976

FROM: G. Pennisi

SUBJECT: Urban Poverty Program Implementation

1. I have few substantive comments on the paper; in East Africa the only major centers concerned appear to be Kinshasa, Nairobi, and Lusaka. We have assisted in the educational aspects of the sites and services project in Lusaka, Nairobi, Francistown and Dar-es-Salaam and would be glad to help in a similar way in the other major urban areas. However, as by and large urban areas are already comparatively over-provided with education facilities, our emphasis will continue to be on spreading education to rural areas or, at least, away from the major centers.

2. I do not like the titles of these documents: they all seem to imply "Urban Poverty" is a good thing, to be programmed and implemented. Don't we need a word such as "Elimination" in them?

3. The memorandum prepared by the UORSU has passages which are difficult to understand at least at a first reading and makes an over-abundant use of economic jargon. It would benefit from some editing. The responsibilities of the various elements in the Bank Group in this exercise also need to be more clearly spelled out; for myself I trust that this urban poverty exercise is not going to increase an already heavy workload. On a matter of detail, specifications of education projects are often finalized only at the very end of the project cycle, and in some cases "detailed project information" is not available for the "next fiscal years" (how many? two? the entire five-year program?) as is implied at the end of para. 22.

cc: Mr. Hendry

FCGamble/GPennisi:mm

## OFFICE MEMORANDUM

TO: Mr. J.A. Bronfman

DATE: September 27, 1976

FROM: Robert Reekie *RR*SUBJECT: Urban Poverty Task Group

As requested I attended the lunch with Mr. Jaycox. Others present were Messrs. Glaessner, Howell, Pollan, Pouliquen, Rajagopalan and Stone.

1. Mr. Jaycox reported that his memorandum of September 14 had been discussed at this morning's Operational Vice-Presidents' Meeting. There will be further discussions in Manila to determine the action to be taken. Although he no longer requires comments on his memorandum he would be pleased to have any inputs which the regions care to make. Data on the definition of the "Target Group" and acceptable level of investment per job created will be circulated tomorrow.

2. Mr. Jaycox reported that Mr. Stern, RVP S. Asia, was rather critical of the proposals. While he agrees with the increased emphasis on the problem of urban poverty he does not agree that the targets (in dollar amounts, as a share of urban lending) should determine the lending program for a country. He would much prefer to designate a specific number of projects as being aimed at the urban poor.

3. Much of the discussion centered on the difficulties of identifying the target group and quantifying the proportion of projects directed towards serving them. There was strong resistance to extending the project Brief system to include data on the urban poor.

4. It was agreed that similar meetings should be held monthly.

RReekie/atm

cc: Mr. E. Erkmen



## OFFICE MEMORANDUM

TO: Mr. J.A. Bronfman

DATE: September 27, 1976

FROM: *Esref*  
Esref ErkmenSUBJECT: Urban Poverty Program Implementation

I have the following comments to offer on Mr. Jaycox's memorandum of September 14.

1. I am somewhat concerned at the proposal that a fixed proportion of all urban-related lending will be "poverty lending". Should this percentage be high, it may well conflict with the aims of economic and financial efficiency referred to in para. 9. It may also have a substantial impact on water pricing policies.
2. I am not enthusiastic about the proposal to extend the Project Brief system to provide urban poverty data. For water supply projects, accurate information on urban poverty will be difficult enough to come by at appraisal; at the time of project identification it would be very unreliable and to update it at six-monthly intervals does not seem justified.

RReekie/atm

## OFFICE MEMORANDUM

TO: Mr. J. Bronfman

FROM: William W. Lewis *W. Lewis*

SUBJECT: Urban Poverty Program Implementation

DATE: September 27, 1976

Since Philippe Nouvel will be away until September 28, he passed on to me the paper from Alastair Stone on Programming Urban Poverty. My comments follow; Philippe may have some comments when he returns.

The paper illustrates well the difficulty of defining the portion of lending oriented towards urban poverty, and I believe some problems remain with the proposals as they would apply to DFC and industrial projects. The paper states that "for DFC, industry and tourism lending ... the main contribution to urban poverty programs is expected to be in terms of the employment they create." The paper goes on to propose that a project would be considered urban poverty lending if its total investment cost per job were less than twice the result of dividing gross domestic investment by the sum of current growth in the labor force plus 1/15 of the total current labor force (this latter term being included to account for replacement of capital). The paper gives some rough figures for the cost per job below which a project would qualify for urban poverty lending. The figure given for Kenya is US\$1,700, which means that the "average" investment cost per job is \$850.

I find this figure for Kenya implausibly low for a criterion for selecting industrial projects oriented towards the urban poor. This criterion would limit industrial projects for urban poverty to the simplest woodworking, metalworking, and other craft activities. These small activities do not offer the prospect of solving a large part of the urban poverty problem of Nairobi, for instance; there is not sufficient demand for the output of these activities. They do have some place in the urban areas; however, they are much more important as generators of employment in secondary towns and villages. I would believe that in urban areas, larger scale enterprises would offer more hope of being established in the near future both to generate employment for the urban poor and to produce some of the essential consumption items for the urban poor. These larger firms can be organized more quickly and offer much greater total employment potential. Unfortunately, the technology available for most of these larger firms is more capital intensive than for some of the very small units. (These larger firms would employ up to say 50 people, have total investment costs of \$5-10,000 per job, and be classified as small and medium scale industries.) However, it is also clear that attractive opportunities exist for small and medium scale industries in Kenya at considerably lower investment costs per job than many of the large scale industries previously established or currently being considered.

One problem with the criterion being proposed may be that trade and other service activities are combined with manufacturing in setting the threshold. I believe that if the threshold were calculated for manufacturing alone according to the proposed rule, then the threshold would be higher and would perhaps place many small and medium scale industries into the urban poverty group.




The second comment I have is that for DFCs in Eastern Africa, many subprojects would probably not qualify under the employment criterion but do produce items which are consumed to a certain extent by the urban poor (for example oil seed crushing plants, large bakeries and textile plants). The paper does allow for counting these types of projects, and for some DFC's, the lending amounts for these projects will be significant.

cc: Gordon  
Hidalgo  
Nouvel  
Levitsky  
Stone, Urban Projects

WL/lj

## OFFICE MEMORANDUM

TO: Mr. Alastair Stone  
FROM: Stephen Denning   
SUBJECT: Urban Poverty Programming

DATE: September 23, 1976

SEP 24 REC'D

1. I have the following comments on your memorandum of September 14 on the Urban Poverty Program Implementation. I am attaching a paper currently being reviewed by Mr. Blaxall, the Program Coordinators and Mr. John King which discusses the overall programming system. It spells out the main assumptions on which my comments are based, namely:
  - (a) the present programming system does not work very well. In particular, the formulation and appraisal of substantive assistance objectives is now systematically carried out only at the project level. Planning at the country, regional and Bank level is largely in terms of proxy objectives. The weaknesses of the present system are structural, and not the results of the recent budget exercise.
  - (b) the systematic formulation of substantive assistance objectives is supposed to take place at the country level in the CPP. In practice, this does not happen very satisfactorily.
  - (c) dollar amounts of IBRD/IDA commitments are decided on a country basis by the President and Senior Vice President. The current management philosophy does not really admit regional allocations, despite occasional indications to the contrary.
2. One of the problems you face is that you are attempting to plan the urban sector at a Bank-wide level. This is going to be very difficult, given the absence of systematic planning at the Bank-wide level in other sectors.
3. You also appear to be attempting to establish substantive planning at the regional level. Whatever the merits of this approach, it is not easy to reconcile with the current management philosophy that substantive planning should be done at the country level. Substantive regional planning in the urban sector can be attempted, but it will be anomalous so long as other sectors are not planned in this way. The formulation of regional lending targets does not fit in very easily to the notion that lending resources are essentially allocated on a country basis.
4. It seems to me unlikely that "definitive Regional Urban Poverty Programs will eventually emerge from the CPP process." Even if the CPP process worked much better than it does now, it is aimed at formulating country objectives. The regional lending program is continuously fluctuating reconciliation of the various country objectives with regional staff resources. So long as the Bank plans substantively at the country level, the regional program will probably never be "definitive." So long as the CPPs fail to spell out substantive



country objectives, the regional lending program will be largely a paper exercise beyond the second year. This is particularly the case with the regional lending program prepared as part of the budget exercise.

5. In effect, I feel that the proposals for urban programming may not take sufficiently into account either the structural weaknesses of the present programming system or the assumptions on which it rests. By proposing different assumptions for urban programming, you risk creating further hurdles in the way of integrating the overall programming system, as well as seriously jeopardizing the success of your own programming proposals. It seems to me premature to propose detailed programming procedures for the urban sector, when the overall programming procedures are under review. What might be useful is to join forces with Mr. Blaxall, who is working on the overall programming system, and Mr. Lethem, who is working on the project brief, to come up with an integrated system that meets everyone's criteria.

Attachment

cc: Messrs. Jaycox (without attachment)  
Thalwitz " "  
Gue " "  
Pouliquen " "

Programming of Lending

1. This note sets out the preliminary findings of a review of the system for the programming of lending. It is put forward as a basis for discussion to determine whether it could constitute a first step towards clarifying and codifying the existing system. It is set out as follows:

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I. Introduction .....	5
II. The CPP Process .....	9
III. Ongoing Decision Making Processes .....	29
A. Generation Selection and Development of Projects .....	29
B. Dollar Levels of IBRD/IDA Commitments .....	37
C. Budget Process .....	43
IV. Integration of the System .....	45
V. Alternatives .....	47
VI. Conclusion .....	49
Annex I Participative Decision-Making	
Annex II Summary Analysis of a CPP Technical Supplement.	

Summary

2. The review starts from two basic premises:
- (a) that the CPP should be the principal instrument for defining the Bank Group's posture towards member countries and for directing the Bank's activities in support of their development efforts (O.M.l.12);
  - (b) that the country allocations of IBRD and IDA lending should be decided by the President and Senior Vice President.

These two principles are given as basic elements of the Bank's management philosophy.

3. Section II deals with the CPP which is found to be unsatisfactory as a planning instrument. The reasons are discussed in paras. 10-12 and



illustrated in a detailed analysis and evaluation of ten recent CPPs, an example of which is contained in Annex II. To make the CPP a better planning instrument, para 13 recommends that the following steps be taken:

- (a) confirm that the CPP's main role is as a planning instrument;
- (b) give more prominence in the CPP process to setting country assistance objectives for the Bank Group;
- (c) require each CPP to formulate explicitly the principal assistance objectives of the Bank Group in the country;
- (d) encourage each CPP to distinguish and segregate country assistance objectives into cross-sectoral and inter-sectoral objectives;
- (e) require each CPP to formulate the principal objectives of the Bank in each sector in which the Bank is active;
- (f) require each CPP to appraise the intra-sectoral objectives it formulates in the light of the principal country objectives;
- (g) require each CPP to appraise the proposed lending program in the light of the principal country and sectoral objectives;
- (h) encourage each CPP to relate the principal country assistance objectives to the relevant decisions to be made;
- (i) reduce the present emphasis in the CPP process on level of dollar commitments in the country;
- (j) make one emphasis of the CPP review process an appraisal of the CPP as a planning instrument;
- (k) develop procedures to integrate the Bank's country and sector objectives approved in the CPP process into the day-to-day decision-making procedures of the Bank.

4. Section III deals with the ongoing decision-making processes:

(a) generation, selection and development of projects

The main points are:

- (i) the project-specific lending program provides an acceptable conceptual framework, though the implicit priorities should be made explicit (paras 17-18);
- (ii) a choice needs to be made between centralized decision-making in the region and participative decision-making by the country program divisions (para 19-21 and Annex 1);
- (iii) the criteria for programming decisions should be made explicit (para 22-23);
- (iv) successive iterations of the Regional Lending Program should be on fixed rhythms (para 24).

(b) dollar levels of IBRD/IDA commitments

The main points are:

- (i) top management decision-making should be focused mainly on the first three years (para 26(a));
- (ii) top management should always exercise its right to review the country implications of new Regional Lending Programs (para 26(b) and (c));
- (iii) the concept of the "two-year approved base" for a country should be made explicit (para 27);
- (iv) the main decision-making process should be by Bank-wide allocation supported by the CPP analysis (para 28);



(v) systematic procedures should be developed to permit top management to expand, contain or reduce overall lending amounts while expanding, containing or reducing the numbers of projects (para 29).

(c) budget process

The main points are:

- (i) if the budget preparation includes project-specific detail in support, the implications in terms of country lending allocations should be reviewed and approved by top management (para 31);
- (ii) an annual plan and timetable for preparing the budget should be established (para 32);
- (iii) the possibility of maintaining a margin between the World Bank Lending Program and the aggregated Regional Lending Programs should be retained (para 33).

5. Section IV deals briefly with the integration of the CPP into the ongoing decision-making processes including the Regional Lending Program, the Monthly Status Report, the project brief, issues paper memoranda to the Loan Committee, ad hoc memoranda to the Senior Vice President and the budget process. The integration is only possible if the CPP has formulated meaningful substantive objectives for the Bank in the country.

6. Section V glances briefly at other avenues which might be explored, including:

- (a) the formulation of substantive objectives at the project, regional and Bank levels; and at the country level other than by the CPP;
- (b) the possibility for a region to use the old operations program concept;
- (c) the use of the programming system to deal with bunching;
- (d) clarification of terminology.

### I. INTRODUCTION

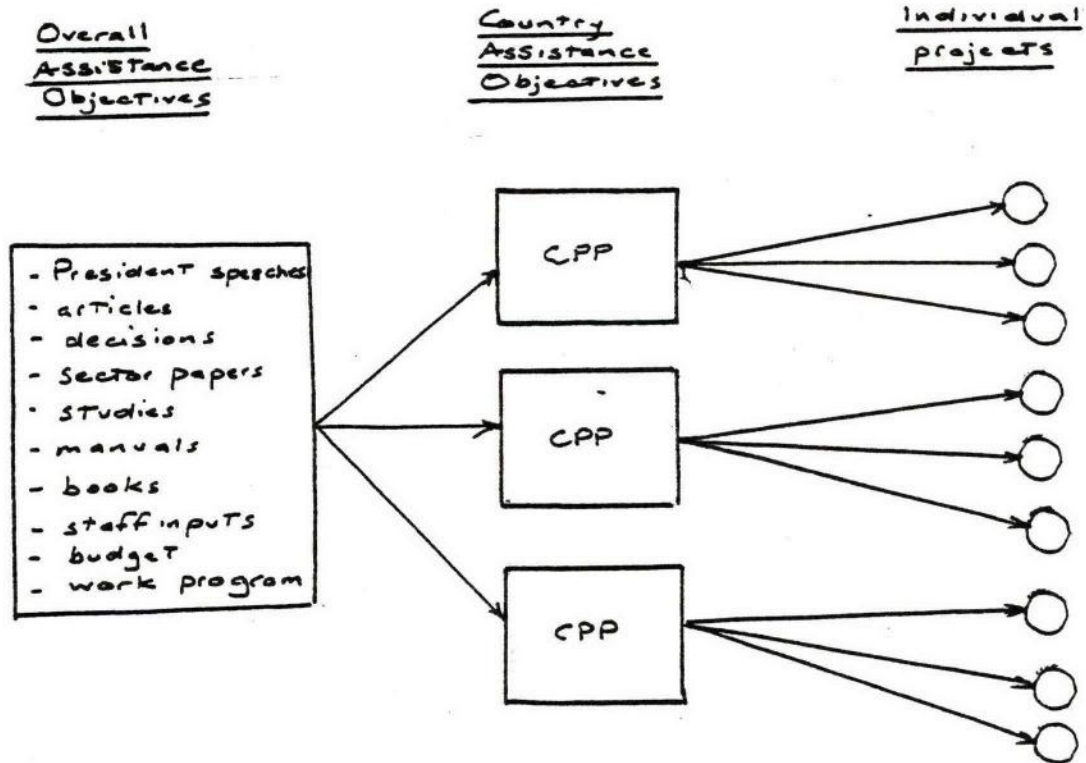
7. If planning consists of a systematic appraisal and formulation of objectives and of the actions necessary to achieve those objectives, then the first step in the planning process is to ascertain overall objectives. In the case of the Bank, the overall objective is, broadly speaking, to lend for development. The meaning of "development" is spelled out in speeches, books and articles of the President and senior staff, the decisions of the President and Senior Vice President, sector policy papers, special studies, manual statements and staff inputs, rather than in any single document. The Bank's assistance objectives are sometimes classified into resource transfer objectives and technical assistance objectives (using "technical assistance" in the widest sense to include policy formulation, project design, project implementation techniques, training, institution-building and the like). The dollar level of loan/credit commitments is frequently used as a proxy for resource transfer and, for want of something better, the number of projects is treated as a proxy for the technical assistance objective. While these proxies are quantifiable and precise, there is a constant need ~~to distinguish them~~.



to distinguish them from the substantive objectives they represent. As the only "hard" element available to measure the "soft" objectives which constitute the institution's mission, these proxy objectives tend to dominate discussions of programming and budgeting. At the aggregate Bank wide level, the proxy objectives are very important for external presentation purposes. However, while proxy objectives are important as measures of progress towards substantive objectives, they are not objectives per se. Committing funds and approving projects constitute necessary, but not sufficient, conditions for ensuring that resources are transferred or that technical assistance objectives will be met. Meaningful planning requires going beyond the proxy objectives to see what substantive objectives are involved.

8. The Bank's overall substantive objectives are broad and flexible enough to permit a very wide range of activities in different circumstances. The breadth and flexibility of these overall objectives, while perhaps inevitable given the diversity of our borrowing countries and the ambiguities of development, underline the managerial need to spell out what exactly are the strategies that the Bank is pursuing in different places at different times. For reasons of management philosophy and political practicality, the Bank spells out its substantive objectives mainly in terms of individual countries. The principal instrument for doing this has been the CPP prepared annually or biennially. Insofar as CPPs formulate meaningful objectives and insofar as the lending which takes place meets these objectives, then there are at least the rudiments of a rational planning system.

CHART 1



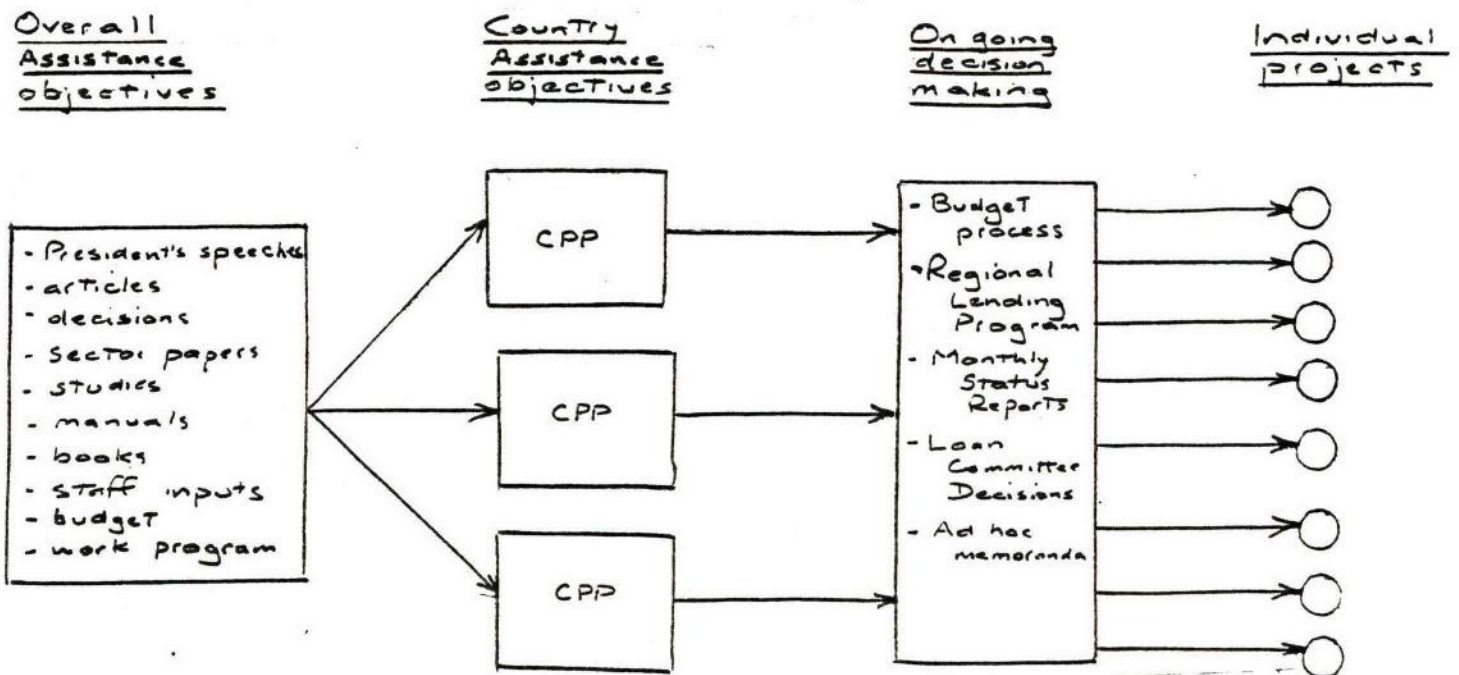
While many different planning systems could be designed for the Bank, the approach suggested in this paper is to take this basic outline and make it work more effectively.

9. Each CPP review results in an approved 5-year lending program for the country. However, the lending programs of the Bank are subject to great uncertainty. Even in the short run, it is impossible to predict accurately the performance of countries or the progress in processing particular projects. In the medium and longer term, the formulation of lending programs, often involving unidentified projects of unknown content, remains a highly speculative affair. No matter how carefully a CPP is prepared, the lending



ing program contained in it is rapidly overtaken by subsequent decisions taken in the light of changing circumstances. If the end result of the CPP process is simply an approved lending program, it is difficult to see how the CPP will ever be more than a passing incident in an unending series of revised lending programs. If the CPP process is to have enduring value, it must be recognized, on the one hand, that decision-making in regard to the lending program goes on in a more or less continuous fashion and, on the other hand, that this continuous decision-making should be governed by the country assistance objectives formulated, appraised and approved in the CPP process. In effect, the most important end result of the CPP process should be, not the approved lending program, but rather the approved country assistance objectives. Thus the simplified picture shown above in Chart 1 has to be modified to show the ongoing decision-making processes (excluding control):

CHART 2



## II. THE CPP PROCESS

10. If the argument in the preceding section is accepted, the primary function of the CPP process should be the formulation and appraisal of the country assistance objectives of the Bank Group and of the actions needed to achieve those objectives. The CPP process may also serve as a briefing mechanism for management, though care needs to be taken that this does not overload the process with excessive quantities of material, or unnecessarily duplicate other briefings. The CPP process may also be a decision-making process in which specific country lending programs are approved. In this area, however, the CPP process has to compete with other decision-making mechanisms (including the Monthly Status Report, the Regional Lending Program, Loan Committee memoranda and various ad hoc memoranda to senior management) which are generally more timely for the issues involved. If the CPP process is merely a decision-making process for specific country lending programs, then it is bound to become the poor relation of the other processes in the system, because it is so cumbersome. If the CPP is to be the principal instrument for planning lending operations in a country, it must guide and coordinate the decision-making that goes on throughout the year. It can only do this if it sets objectives, that are clear, specific, easily accessible, authoritative and capable of being monitored. This section reviews how far the existing CPP process succeeds in setting country assistance objectives and then discusses how it might be made more effective.



11. To assess the effectiveness of the current CPP process in setting country assistance objectives for the purpose of guiding subsequent decision-making, a representative set of ten recent CPPs was selected: Botswana, Brazil, Cameroon, Gambia, Jordan, Philippines, Senegal, Sri Lanka, Tanzania and Tunisia. An effort was then made to extract the Bank's country development objectives which were explicitly formulated or implicitly alluded to in these CPPs. An example of these analyses is set out in Annex II. An evaluation was then attempted of these CPPs as instruments for setting the Bank's country assistance objectives which might guide and coordinate subsequent decision-making in respect of Bank activities in the countries.

12. All of the CPPs were successful as briefing documents in describing what was being planned in the way of lending for the relevant countries. All of the strategies discussed were broadly consistent with overall Bank policies and objectives. Nevertheless the particular way in which the CPPs formulated country assistance objectives may be limiting the effectiveness of the process in guiding and coordinating subsequent decision-making:

(a) inaccessibility of the objectives

While the CPPs do formulate objectives in such a way as to permit a diligent reader to find them, the country assistance objectives do not always emerge clearly, obviously and unambiguously. In no case did the decision as contained in the postscript (where available) or the Summary and Conclusions explicitly restate the main country assistance objectives. Both the postscript and the Summary and

Conclusions seemed to be mainly concerned with the proxy objective of the size of the lending program. The Postscript usually noted that the composition of the lending program was satisfactory without reference to the substantive objectives being pursued. In only two of the CPPs were the main objectives presented in such a way that the reader would find them easily and unambiguously (e.g. by underlining or indenting in subparagraphs). In most cases, the objectives are embedded in the text, often in the middle of a paragraph, sometimes without any indication whether they are essential or dispensable parts of the overall strategy. These practices have several important consequences. First, because the objectives are presented in such a casual manner, no one is completely certain that they have received management scrutiny or that they are in fact authoritative. Secondly, there is no established consensus as to the precise objectives being pursued in a country so that subsequent decision-making has no agreed framework in which to operate.

(b) failure to organize objectives

It is clear that the Bank is always pursuing a multiplicity of inter-related objectives in any one country. The large numbers of objectives stated or alluded to in the CPPs is more apparent when the objectives are set out exhaustively than when they are buried in 20-25 pages of tightly argued prose. Once the objectives have been identified, it is not always easy to determine the relationships and priorities between different objectives. In some cases, little attempt is made to distinguish central



from peripheral objectives: the prose flows on, steadily accumulating worthwhile objectives, but scarcely pausing to assess their significance or their implications. In other cases, "primary" objectives are identified, followed by "key" objectives, "major" objectives, "essential" elements, "urgently needed" items and "important" aspects of the strategy, so that the primacy of the primary objectives is not entirely unambiguous. In a very few cases, there is a well-ordered set of objectives with clear relationships and priorities established between them. However, the more general impression is one of the fuzziness reminiscent of those political party platforms which promise something for everyone. Such CPPs suffer the normal fate of political platforms--rapid oblivion--because they offer little guidance for future action.

(c) proxy objectives

As noted above, the number of projects financed is generally the only quantifiable proxy for the broad technical assistance objectives of the Bank Group. While scarcely anyone would argue that the number of projects financed is significant except insofar as it represents progress towards the substantive objectives, it is very tempting to save the trouble of spelling out what these other substantive objectives are. In dealing with aggregates such as the World Bank Lending Program or a Regional Lending Program, the use of proxy objectives may be the only practical

way of conducting any meaningful discourse. But in the case of a single project or a single sector in a single country, the reliance on proxy objectives is less justifiable. Yet a surprisingly large number of sector discussions in CPPs fall into the following pattern: start by describing the usually enormous problems affecting the sector, indicate the major components of the most recent project already financed and finish with the statement "A \_\_\_th project is scheduled for FY \_\_\_." The implication seems to be: "with a target so big, we can't miss: any project is bound to do some good. There is no shortage of worthwhile objectives. Let's leave it to the identification mission to see what they can come up with." If it is decided that, as a practical matter, this approach works well enough, then the pretence of a major planning role for the CPP can be abandoned and it can be replaced with very much simpler briefing mechanisms.

(d) concentration on level of lending

The major theme of all the CPPs is the level of dollar commitments in the country. This is the main thrust of every Summary and Conclusions and is referred to in every available Postscript. Seven of the ten CPPs propose larger lending programs. Much of the accent throughout these CPPs is on showing in subtle ways that a larger program is warranted. Now no one would deny that resource transfer is a major objective of the Bank or that level of commitment is a relatively good measure of it. However, few would argue that it is the only objective and many would say that it is less important than the broad technical assistance objectives of the institution.



Yet a disproportionate effort in the principal planning process of the Bank--the CPP process--seems to be devoted to obtaining a larger share of the available lending resources for the country in question. Since the overall level of available lending resources is determined in advance by exogenous factors, it may be that some of the effort now put into trying to increase the country's share of lending resources could more usefully be directed to formulating and appraising more thoroughly the broad technical assistance objectives of the Bank in each country.

(e) objectives too detailed

In one sense, objectives can never be too detailed. The more one is able to analyze the detailed implications of a general objective, the more chance one has of being able to reach it. However, in a constantly changing situation, it is not enough to work out the detailed implications once. They have to be worked out again each time there is a change in the situation. If this is not practicable, then the detailed implications of the plan rapidly become useless, except as a "snapshot" of how things were at one point of time in the past. Unfortunately this seems to be the fate of much of the planning done in the CPP process. For example, the 5-year lending program, complete with percentage distribution of lending by sector calculated to the first decimal place, is rapidly outdated by subsequent decision-making in the

light of new events. Likewise, a plan to have a project in the south is not much use when the government insists on the project being in the north. The point is that the CPP should endeavor to spell out objectives which can guide subsequent day-to-day decision-making rather than be overtaken by it. This means formulating objectives at a sufficient level of generality that they continue to be meaningful despite changes in circumstances. Thus an explicit objective to have a project which benefits poor farmers currently without extension services may, in some circumstances, be more meaningful than an objective to have a project in the south. On the other hand, objectives need to be sufficiently specific to have an operational impact. Thus an objective "to provide meaningful support for the government's development efforts" may not be particularly helpful. It is a matter of judgment in any case as to what is the most appropriate level of generality. As a rule, the CPPs tend to set objectives which are too specific to have enduring meaning.

(f) lack of explicit connections between objectives and decisions

The idea of planning is that the objectives should lead the decision-making, not follow it in a kind of ex-post rationalization of what happened. Yet the CPPs give little sign that the objectives are driving the decision-making. In only one of the sample cases was the lending program systematically evaluated against all the main objectives. More typically each new project discussed generated a new objective which "justified" the project. There was virtually no discussion of alternative ways of reaching the objectives more



~~ussion of alternative ways of reaching the objectives more~~ efficiently or effectively. The CPPs tended to discuss the 5-year lending program as a whole without distinguishing between the different kinds of decisions which are relevant at different time periods. There is little indication in the CPPs that the Bank is rigorously pursuing a firm set of country objectives (except detailed project-specific objectives). There is instead an atmosphere of improvisation within a very broad framework of alternative objectives. In the circumstances of the Bank, some might argue that this is a defensible style of work for the reasons discussed below in para 14. However, it leaves essentially no planning role for the CPP. If the goal is to make the CPP a meaningful planning instrument, then some changes are needed.

13. To make the CPP a meaningful planning instrument, the following actions seem necessary:

(a) confirm that the CPP's main role is planning

The first step is to make clear that CPP's unique function is as a planning instrument. Currently some see it as a cumbersome briefing document. Some see it as a decision-making instrument, competing ineffectively with other day-to-day decision-making mechanisms (such as the Monthly Status Report, Memoranda to the Loan Committee and ad hoc memoranda) and use the CPP principally as a lever to try to get more resources for the country in question. It may at one time have been envisaged as a "program" document in the PPBS sense, containing both inputs and outputs, though this has proved to be impracticable for the reasons given below in para 30.

Unfortunately O.M.1.12 does not really clarify the matter. To remove the ambiguity, O.M. 1.12 should be modified to state that planning should be the CPP's principal function, with all other functions subsidiary to this. There are various indirect ways in which management can also make this understood, including the steps listed below. But the first step is to make explicit in the Operational Memorandum that the CPP's primary purpose is planning, i.e. the systematic formulation and appraisal of objectives and of the actions necessary to achieve those objectives. Needless to say, the CPP would continue to report on the country's own objectives and performance and overall external assistance. It would continue to relate to the Bank's assistance on a 5-year horizon. It would continue to attach a project-specific 5 year country lending program. The CPP as a plan would be expected to have a useful life of at least a year, though it would be recognized that the project-specific lending program would probably undergo changes in the subsequent day-to-day decision-making described below in Section III.

- (b) give more prominence in the CPP process to setting country assistance objectives for the Bank

There are various ways in which objective setting could be given more prominence. One possibility would be to supplement the current Postscript by a concise formal statement of the principal country and sectoral assistance objectives. Another possibility is to have the Summary and Conclusions restate the principal country and sectoral assistance objectives. The standard format might be:

"The principal country assistance objectives of the Bank are:



(a) to help benefit lower income people; (b) ..... (c) .....  
etc. The principal inter-sectoral objectives are: (a) to devote  
at least one third of our lending in FY79 and FY80 to rural  
development projects; (b) ..... (c)..... etc. The  
principal assistance objectives in the agriculture sector are  
(a) to develop rural development projects which raise incomes  
and productivity of poor farmers in the densely populated  
groundnut basin; (b) ..... (c) ..... etc."

- (c) require each CPP to formulate explicitly the principal assistance objectives for the Bank in the country

The full articulation of all the objectives of the Bank in a country could result in an enormous number of objectives. Large numbers of objectives can be systematically represented in network form, and such exhaustive presentation might be encouraged in the CPP process. Nevertheless, it is not possible for managers to concentrate equally on large numbers of objectives and the attempt to do so can easily diffuse their efforts. This is particularly critical for programming decisions where managers are often trying to decide the relative priorities of projects in different countries. It is, therefore, suggested that the CPP should select from among the many aims relating to the country, the principal assistance objectives, i.e. the objectives that will make the greatest difference in the Bank's work from the point of view of accomplishing the Bank's overall development objectives In formulating objectives, the planner should try to foresee the kind of issues that are going to arise in the

course of the year so as to establish in advance a framework for resolving them. Selecting the principal objectives in this context is not necessarily the same as selecting the essential objectives. For instance, an objective to lend for economically viable projects is very important, but to emphasize it would have very little impact because the Bank does it automatically. Hence, it is not appropriate in this context as a principal objective for the Bank in a country. The kind of objective which may be appropriate, for instance, is to help raise incomes and productivity of lower income people. Relevant objectives will often involve changes, but equally may concern continuation of existing policies, especially where such policies may be considered controversial, e.g. to continue lending for traditional infrastructure projects. The idea of making the principal objectives explicit is to clarify the direction, the image, the tone and even the philosophy underlying a complex set of activities, so that all the institution's efforts pull in the same direction.

- (d) encourage each CPP to distinguish and segregate country assistance objectives into cross-sectoral and inter-sectoral objectives

In some of the sample CPPs, the discussion of country strategy amounted to little more than a discussion of the sectoral content of the lending program, e.g. "to focus our assistance on agriculture and to a lesser extent on transport." Objectives of this sort (hereafter called inter-sectoral objectives) are very close to being mere proxy objectives and by themselves constitute an inadequate consideration of strategy. The substantive planning issue is: why are we focussing on agriculture? The answer in terms of substantive



objectives at the country level tends to be cross-sectoral in nature, e.g. to help relieve the balance of payments or to benefit lower income people. To lessen the risk of country strategy discussion degenerating into the formulation of mere proxy or inter-sectoral objectives, it is suggested that CPPs should systematically distinguish and segregate cross-sectoral and inter-sectoral objectives. The principal country assistance objectives would normally be cross-sectoral in nature.

- (e) require each CPP to formulate explicitly the principal objectives for the Bank in each sector in which the Bank is active

Conditions in different sectors may vary considerably, resulting in, different emphases in Bank activities. These emphases should be made explicit in the CPP by the formulation of objectives going beyond the standard "A \_\_\_\_\_th project is scheduled for FY\_\_\_\_\_." The standard format might be: "The principal assistance objectives of the Bank in the industrial sector are: (a) to help expand and diversify financial and technical assistance programs for small and medium scale industries: (b) ..... (c) ..... etc."

- (f) require each CPP to appraise the intra sectoral objectives it formulates in the light of the principal country objectives

Planning includes the systematic appraisal of objectives. If the CPP is to be a meaningful planning instrument, it must start taking the appraisal of objectives more seriously, rather than using an undetermined list of objectives as a device for ad hoc rationalizations. It is not implied that all the principal sectoral objectives could be related to the principal country objectives. One would however expect some degree of correspondence.

- (g) require each CPP to appraise the proposed lending program in the light of the principal country and sectoral objectives

The idea of formulating objectives is to affect decision-making throughout the coming year. As a start in this direction, the current lending program attached to the CPP should be analyzed in the light of the principal objectives. Possible alternative ways of achieving the objectives more efficiently or effectively might be discussed in the CPP.

- (h) encourage each CPP to relate the principal country assistance objectives to the relevant decisions to be made

The major distinction to be drawn relates to different time periods ahead. For the projects in the first and second year ahead, the issue is generally, given the projects we have, what can be done to maximize the contribution to our country objectives? For projects in the third and fourth year, the issue is: what implications will our objectives have for the selection of projects during the course of the next year or so? For the fifth and sixth year, the issue generally is: what new lines of activity should we be developing given our country objectives?

- (i) diminish the current emphasis in the CPP process on level of dollar commitments in the country

The main way of doing this will be to encourage concentration on more productive topics such as the formulation and appraisal of country assistance objectives. However, there may be other indirect methods for de-emphasizing the level of lending



issues. One possibility might be to make the matter more open by having a formal "advocacy" section in which the case could be made for a level of lending higher than the 2 year approved base (see paras 27-28). Explicit evaluations of the case for increasing lending might be made by top management in order to prepare for the contingency that more funds may become available if other countries drop from the program. Another possibility would be to confirm that the principal process for deciding country levels of lending is an annual Bankwide allocation by country of IBRD and IDA funds for the two years ahead. The "advocacy" section in the CPP would then be directed towards any proposed modification to this allocation. The CPP as a whole would be directed towards establishing the two year base in the next Bank-wide allocation. Another possibility would be to reduce the formal decisions on dollar commitments from a horizon of five to three years so that the argumentation and decision-making would be focused on the real issues. The final two years could be retained for the purposes of illustration and aggregation but normally excluded from the decision-making (see below para 28).

- (j) make the emphasis of the CPP review process an appraisal of the CPP as a planning instrument.

The current CPP review process tends to be issue-oriented. In effect, reviewers try to find issues for discussion, often by searching for unusual aspects or apparent gaps in the lending program or opposing the almost standard proposal to increase lending. While the latter function is probably inevitable, the search for aspects of the program to challenge is probably counter-productive. CPP writers quickly learn to defend themselves

by providing rationales for everything. The result is an "issue-free" paper, except possibly for one or two token issues almost deliberately left in for discussion purposes (e.g. to put in Reserve an extremely attractive project or to include an apparently unattractive project in the lending program). Reviewers could help the CPP become a serious planning instrument. The first step at the working level might consist of pointing out to the writer, as appropriate, the large number of unorganized objectives, the lack of clear priority among them, the emptiness of objectives such as "to schedule a project in FY80," the difficulty of identifying the objectives in the CPP as written, the lack of explicit relationship between the principal objectives and the program and so on. At a higher level, the reviewers should explicitly assess the CPP as a planning instrument, asking: does it systematically formulate and appraise the Bank's objectives in the country and the actions necessary to achieve those objectives? In effect, a "good" CPP should be one that not only tells it like it is, but also serves a useful purpose in subsequent decision-making by staff and management during the year.

- (k) develop procedures for integrating the Bank's country and sector objectives approved in the CPP process into the day-to-day decision-making procedures of the Bank

The approval of the CPP should be the beginning of its effective life, not the end as now tends to be the case.



The first step is to produce it in such a way that it can be useful. The second step is to devise procedures which ensure that it is used in the subsequent decision-making. The basis for such procedures will be outlined in the following sections.

14. It should be noted that the recommendations for the CPP rest on the following assumptions:

(a) that planning is desirable

Though rarely questioned openly, planning is sometimes covertly questioned by an emphasis on intuitive judgments, flexibility and keeping options open. A planning approach does not imply that decisions are not made on the basis of judgments. The question is whether those judgments have to be made in the mists of inadequate information, undefined issues and a welter of conflicting personal opinions or whether they can be made on the basis of adequate, reliable information, relevant experience and clearly drawn issues. The planning approach emphasizes "procedural rationality" in which established procedures, common frames of reference for discussion and agreed kinds of information to collect facilitate rational discourse within the organization.

(b) that planning at the country level on an annual or biennial basis is possible and desirable

The CPP process depends on the ability to formulate enduring guidance for work on the country. The approved lending program in the CPP does not achieve this because it changes too rapidly. The viability of the CPP process depends on the ability to

formulate something of sufficient generality that it will have lasting validity, yet of sufficient specificity that it is useful.

(c) that the CPP review process can permit open communication

To be useful, objectives have to be specific and may imply change. But if they are specific and if they imply change, they inevitably call into question some of the things currently being done. If the review process is characterized by a search for points to challenge, then the reviewers can easily use the objectives to attack the program. The CPP writers will protect themselves by making objectives more general, so that the objectives no longer imply change. As a result, the CPP as a planning process is seriously weakened, and effective country planning is done outside the CPP process or not at all. Successful implementation of the recommendations depends on the possibility of open communication. One important element will be the awareness on the part of writers and reviewers that meaningful objectives often imply change, that change takes time and that not all the current activities of the Bank fit our principal objectives. However the open recognition of this fact is a prerequisite to doing something about it. Otherwise the planning process consists of producing objectives to justify the status quo.

(d) that the CPP can serve many purposes

The idea of an instrument which not only formulates overall objectives, but also requests specific decisions on level of lending, is ambitious. There is a very serious risk that unless



writers and reviewers display considerable skill, an advocacy approach to the level of lending will prevent the formulation of specific objectives.

- (e) that is is possible to reach agreement on priorities between objectives

The complexity and ambiguity of the Bank's activities is undeniable. It is inevitable that in any country a wide range of interrelated objectives are being pursued. In fact, it might be helpful on an experimental basis to introduce into some CPPs a comprehensive statement of objectives in a systematic fashion, e.g. in the form of a hierarchical network. What is being proposed is, first, that the implications of pursuing many objectives should be examined with more intellectual seriousness; secondly that, insofar as it is impractical to pursue large numbers of objectives with equal attention, priorities should be indicated between objectives; and thirdly that the objectives, once formulated, appraised and approved, should play a central role in subsequent decision-making. If this is not possible then it implies that planning at the country level is not possible and the attempt to do it by the CPP process should be abandoned.

- (f) that the formulation of objectives is not viewed as an undesirable loss of flexibility

Planning involves choice. The choice once made means a loss of the options excluded by the choice. The number of options excluded depends on the specificity of the plan. For instance a plan to

"do something" excludes only one option i.e. "doing nothing". The degree of specificity of a plan is one of the most important decisions a manager has to make. It is true that, once set, objectives can take over. If they are inappropriate and pursued mindlessly, they can lead an institution astray. However, the concept of planning proposed here is a dynamic one of defining development objectives, devising alternative ways of achieving those objectives, evaluating these alternatives, questioning the objectives and the assumptions underlying the evaluation, opening new alternatives and establishing new objectives, and so on indefinitely. On this basis, the concept should increase actual flexibility by encouraging the systematic consideration of alternatives. The concept is proposed in opposition to an approach in which the lending of the Bank is determined by improvising projects within an undetermined range of alternative objectives. If the latter approach is to prevail, then it should be adopted explicitly so that the elaborate planning machinery now in place can be dismantled and replaced with simple briefing mechanisms.

(g) that effective planning is not excluded by uncertainty

Uncertainty creates a dilemma. On the one hand the more uncertain a situation the more difficult it is to plan. On the other hand, the more uncertain a situation, the greater the need to plan so as to anticipate difficulties and to take advantage of opportunities. The question is not whether to plan or not, but rather



how to match the level of generality of the plan to the relevant time horizon and the frequency of decision-making. Many of the current problems with the CPP stem from the attempt to plan on an annual or biennial basis to a degree of detail which is inconsistent with the fundamental uncertainty of the subject matter. The appropriate solution is not to abandon any attempt at planning, but rather to plan at an appropriate level of generality.

(h) the Bank can and should formulate its own objectives

The recommendations assume that although the Bank is involved in a cooperative enterprise with its borrowers, it should formulate its own strategy as to what it is trying to accomplish. Even if its objective is to help the borrower pursue the borrower's own strategy, the Bank still has to determine in what sector, in what form and to what extent it is going to help the borrower. The notion that the Bank simply reacts to what the borrower proposes is not supported by analysis. As noted in a recent OED study, as many as 40% of projects are seen in retrospect as having been conceived by the Bank before the borrower. Even if 100% of projects were conceived by borrowers and submitted to the Bank, the Bank would still have to devise a strategy for responding to borrowers' requests. In fact, the more the borrower tries to influence what the Bank does, the more important it is that the Bank have its own strategy to ensure the achievement of its own institutional objectives.

### III. ONGOING DECISION-MAKING PROCESSES

15. The overall object of the planning system is to optimize the achievement of the Bank's resource transfer and technical assistance objectives. The first step in clarifying the operation of the system was to spell out the role of the CPP as the principal planning instrument, viz to make explicit the Bank's resource transfer and technical assistance objectives in the country and the actions necessary to achieve those objectives. Because the CPP takes place on an annual or biennial cycle in a rapidly changing environment, its unique and most important contribution is in the formulation and appraisal of the Bank's country assistance objectives. The ongoing decision-making processes inevitably modify the particular actions proposed in the CPP as new information becomes available and as the situation changes. The second step, therefore, in clarifying the operation of the planning system is to explain the operation of the Bank's ongoing decision-making processes relating to lending. This is the topic of Section III. For the purpose of simplifying the discussion, three broad areas of decision-making will be distinguished (though clearly they are interrelated and need to be integrated as explained below):

- A. generation, selection and development of projects;
- B. dollar levels of IBRD/IDA commitments;
- C. administrative budget.

#### A. Generation, selection and development of projects

16. Each CPP attaches a lending program which shows the projects planned for the succeeding five years. This section will be concerned



with the processes which determine how these particular projects get into the lending program and what happens after the lending program is approved. It will deal with a variety of issues related to the concepts for decision-making (paras 17-18), the responsibility for decision-making (paras 19-21), the criteria for decision-making (para 22-23) and the frequency of decision-making (para 24).

Concepts for decision-making

17. This paper accepts that the existing concepts for decision-making are appropriate for the generation, selection and development of projects. Thus the project-specific lending program designated by country, by type of project, by fiscal year of Board presentation, together with the likely loan amount and scheduled dates for performing critical steps, is generally satisfactory. The most important requirements, namely, that it be in terms of objectives (albeit proxy objectives), rather than means, and that it reflect major management concerns, are met.

18. If the existing terminology for decision-making is retained, then one point which is now implicit should be made explicit. It should be recognized that the use of the terminology implies that a project in the lending program prima facie has a higher priority than projects in the standby program. Thus the project-specific lending program was devised in order to give clearer guidance on priorities. It appears to be treated in practice by projects staff as indicating priorities, regardless of any instructions to ignore the distinction. If it is desired not to indicate

priorities by the decision-making concepts, then a different terminology should be used, such as the former operations program. In effect, the project-specific lending program forces a very clear presentation of lending plans. If it is felt that it is too clear then a more ambiguous terminology should be chosen. The point of view adopted in this paper is that with appropriate steps to differentiate and integrate the elements of the system, the concept of the project-specific lending program is a suitable basis for decision-making in terms of generating, selecting and developing projects. It will be argued, however, in para 27 below that it is by itself an inadequate basis for controlling country allocations of IBRD and IDA resources.

Responsibility for decision-making

19. Planning involves an organizational dilemma. On the one hand, effective planning implies coordination, and coordination is generally seen to imply centralized decision-making. On the other hand, effective planning requires the participation in the formulation of the plan of those affected by it, in order to maximize the commitment to implementing it. Thus participation implies decentralized decision-making. This dilemma poses severe practical problems in assigning responsibility for planning of lending within the regional offices. Thus a change in one country lending program frequently has ripple effects throughout the region, affecting directly the work plans of the sector-oriented projects division and thereby other country lending programs in the region. A proposal to change a country lending program often raises a regional issue, particularly when changes to several country lending programs are involved. The decision can only be taken effectively by someone with a



with a regional perspective. Thus the dilemma appears to imply either a coordinated decision at the region's center (RVP, Program Coordinator or Directors) with low commitment of the staff or a decision at the region's periphery with higher commitment of the staff which is nevertheless uncoordinated and hence unrealistic and ineffective.

20. Within the present organizational structure of the regions, there appear to be only four alternatives:

(a) decentralized decision-making in the country program divisions

This was essentially the official approach adopted before the reorganization and for a year or two thereafter. The result was an inflated lending program which vastly exceeded the capacity of the projects divisions to process it. The real planning decisions were taken outside the formal decision-making apparatus, apparently mainly by the projects staff.

(b) decentralized decision-making in the projects divisions

This was essentially what actually happened prior to and just after the reorganization. It was effective because the projects divisions not only had responsibility for project preparation and appraisal but also had a regional perspective owing to their sector orientation. However, there is a substantive question whether the projects division is best placed to weigh inter-country and inter-sectoral priorities.

(c) centralized decision-making at the level of RVP, Program Coordinator or Director

Such decision-making can be coordinated and effective, but tends to lack the commitment of the staff to implement it. An illustration of the effect on morale of centralized decision-making can be seen from the following quotation from Mr. Kearns' memorandum on the programs function: "loan officers often view CPP work as an effort to (1) develop strategic rationalizations for projects which are in the lending program for the first two or three years, (2) provide a means for people having less country knowledge than they do to affect long-term assistance strategy and (3) provide after-the-fact justifications for the decisions made by such people." Another symptom of the lack of commitment to the decisions is the frequency of proposals for change to the lending program, implying that the original decision did not meet with general satisfaction and acceptance. There is a permanent "open season" on decision-making: the fact that the lending program excludes a project today does not prevent anyone from proposing it again tomorrow. A further symptom of the tension between the centralized decision-making and the staff is apparent at the CPP review when the CPP is used by the program division in a generally unsuccessful attempt to get a larger share of the region's processing resources for the relevant country. The Regional Lending Program is thus not something which the program divisions are committed to implementing but rather something they expend energy trying to change. The planning system is tolerated as a necessary burden, instead of contributing to the region's work, as a positive constructive element. The various measures



that can be used to mitigate the effects of centralized decision-making will be discussed below in para 21. But the measures can only mitigate: they do not remove the problem.

(d) participative decision-making by the country program divisions

Some institutions have dealt with the type of problem discussed above by introducing participative decision-making. It remains an open question whether such an approach could be introduced into any Region in the Bank at present. It is discussed in Annex I.

21. Given the dominant management style throughout the Bank today, centralized decision-making will probably be the norm and the main issue is how to get maximum benefits from it. Centralized decision-making implies competition for scarce processing resources, and the object should be to keep the competition within bounds and to explain its operation to the participants. One step will be to define country assistance objectives more sharply as explained above in Section II and to establish decision criteria as explained below in paras 22-23. In addition the following measures might be considered:

(a) clarification of planning responsibilities

The centralized nature of decision-making should be made explicit and formalized, with the role of the program divisions clarified.

(b) guidelines When requesting the formulation of a new Regional Lending Program by the country program departments, the Program Coordinator should provide guidelines showing numbers of projects for:

(i) each department;

(ii) each major country;

(iii) each sector in which processing resources are scarce.

(c) agenda for meetings

Meetings for centralized decision-making often suffer from the lack of detailed knowledge of the issues by the participants unless they have had a chance to brief themselves. This underlines the need for participants in centralized decision meetings on the Regional Lending Program to give advance notice of any issues to enhance the quality of the decision-making.

(d) reasons for decisions

The reasoning behind decisions should be systematically communicated to all interested staff in the form of detailed minutes by the Program Coordinator.

Criteria for decisions

22. Discussions of programming issues are generally bedeviled by a lack of clear criteria for decision-making. Without criteria, it is very easy for the decision-making to degenerate into adversary style bargaining in which the achievement of the country development objectives as spelt out by the CPP tends to fade into the background. It is therefore suggested that each decision-making group, whether centralized and decentralized, should establish clear decision criteria before undertaking any actual decision-making. In such a complex area, criteria could easily be elaborated to an impractical degree of detail. It is therefore suggested as a start that the criteria should be kept to a few key dimensions such as:



- (a) project's relation to the Bank's objectives in the country as spelt out in the CPP;
- (b) equity considerations in the context of the country's fair share of the region's processing resources;
- (c) the feasibility of presenting the project in the relevant fiscal year (preparation time, financing, position of the government, etc).

23. The importance of these criteria varies depending on the time period. In the fifth and sixth year, virtually the only relevant consideration is the first, viz the project's relation to the Bank's country objectives. In the third and fourth year, in which the important project selection largely takes place, the equity consideration starts to play an important role. In the first, second and, to some extent, third year, the question of the feasibility of presenting the project starts to loom large. It may be that by making these points explicit some progress can be made in clarifying programming discussions.

#### Frequency of iteration

24. Many of the present difficulties stem from the random and excessively frequent iterations of the program. One result is that staff are never sure as to when decisions are going to be made and hence cannot always make their contribution. This is a serious problem for the Central Projects Department. Another result is "planning fatigue," particularly during the budget process. A further result is that the more often plans are remade, the more likely it is that the planning process will seem less binding, so that the plans it generates will be subject to further revision. For all these

reasons, it is recommended that the iteration of new programs should be governed by a fixed rhythm which should only be disturbed in the most unusual circumstances. It is suggested:

- (a) the Regional Lending Program for years one and two should be prepared no more frequently than once a month. Thus the budget process would in effect have to be fitted around the Monthly Status Report, as the cost in confusion of any alternative approach is probably too high.
- (b) the Regional Lending Program for years three and four should be prepared on a fixed two month, three month, four month or six month schedule. To permit effective COPD participation, this may need to be agreed Bank-wide.

B. Dollar levels of IBRD/IDA commitments

25. This section will discuss the dollar levels of IBRD/IDA commitments in terms of the responsibility for decision (para 26), the concepts for decision-making (para 27), the frequency of decisions (para 28) and the procedures for changing decisions (para 29).

Responsibility for decision

26. As noted above, this paper starts from the principle that country allocations of IBRD and IDA resources should be decided by the President and Senior Vice President. This principle is embodied in the written rules for years one and two contained in the President's memorandum of October 30, 1975. The three areas where clarification is needed are:

(a) rules for years three-five

A recent DPS study has shown that management decisions on the fourth, fifth and sixth year vary by as much as 100% in



real terms from what actually materializes. This is not however a matter of much concern as accurate decisions on the outer years are simply not needed. Thus while options relating to the choice of projects in a country tend to narrow drastically several years in advance of Board presentation, the level of lending for a country permits considerable flexibility up to and even during the year of Board presentation. It is therefore suggested that top management decision-making should concentrate on the first and second year as now, only making formal decisions beyond this period in relation to the third year (to prepare for the new two-year base) and in exceptional cases where longer advance planning may be needed (e.g. enclave projects, phasing out lending). Thus apart from these exceptions, the region would extrapolate to determine approximate levels of lending beyond years one, two and three. This would be sufficient for most practical purposes, including the Bank's 5 year lending program and financial plan.

(b) right of review must be exercised

One confusing aspect of the FY77 budget preparation was the fact that several regional lending programs were called for, the country implications of which were apparently never reviewed by top management. To prevent this confusion in future, it appears that if decisions as to the dollar level of commitments are to be made by top management on a country basis, this must be the consistent practice. In effect, if the lending program is to be revised Bank-wide, top management must actually exercise its right of review and examine the country implications within a reasonable period of time (say,

one month). If it is not practicable for top management to carry out the review at that time, then the preparation of new programs should be postponed until a top management review is practicable. Generally speaking, new programs should not be called for until the country implications of the previous submission have been reviewed and approved by top management.

(c) use of regional lending allocations

Particular care is needed in the use of the concept of the regional lending programs. Thus although the Regional Lending Program may, under the October 30, 1975 rules, serve as a limitation on the extent to which the region can make adjustments within the two year approved base in each country, the use of the Regional Lending Program concept in preparing new lending programs can easily give the impression that each region is being given authority to allocate a new and often large regional total among its countries (c.f. Mr. Knapp's memoranda of February 5, 1976 and April 16, 1976). It may be that the regional lending total is a useful way of indicating guidelines for making new country submissions. But it should be made clear at the same time that it is only a guideline and that top management is going to review and approve each country allocation.



Concepts for decision-making

27. The President's memorandum of October 30, 1975 made clear that the control of country allocations of IBRD/IDA resources would use the project-specific lending program. Each country's lending program was defined as "the specific projects and amounts listed for the country in the Regional Lending Program for the year." It implied that control decisions would be made in terms of a two-year approved base for each country. What was not clear was whether the sum of the individual loan amounts listed for each country would or should always be identical with the two-year approved base for that country. As Mr. Knapp's memorandum of April 16, 1976 shows, circumstances could arise in which it was desired to establish a two-year approved base for each country which was in excess of the aggregated forecast loan amounts at the time. Much of the difficulty in dealing with that situation derived from the fact that the concept of the two-year approved base for each country was implicit rather than explicit. As a result, there were no generally agreed terms for discussing and effecting the change. It is therefore recommended that the concept of the two-year approved base for each country be made explicit and distinguished from the individual loan amounts forecast or predicted at the project level. In effect, there may be circumstances, such as in October 1975, when it is desired to make the two-year approved base equal to the aggregate forecast loan amounts in the country. There may be other situations, such as in April 1976, where it is desired to have the two-year approved base larger than the aggregated loan amounts in the country. To give top management the flexibility of making a choice, the concepts need to be defined, distinguished and recorded separately, for instance, in the Monthly Status Report and the lending program attached

to the CPP. The term "two-year approved base for a country" is used in Mr. Adler's memorandum of August 16, 1976 and might be defined as the level of lending for a country for the current and succeeding fiscal year as authorized by the President and Senior Vice President.

Frequency of decision

28. The level of lending to a country is clearly one of the major planning issues relating to it, and it is inevitable that this subject will receive attention in the CPP review. Nevertheless the CPP process by itself cannot handle the allocation of funds issue. Thus quite apart from the rapid changes which affect individual country lending programs, it is highly unlikely that a set of sequential CPP decisions made annually or biennially on each of 75 countries will exactly anticipate the Bank-wide decisions and forecasts made at the time of the annual budget. In effect, the only satisfactory approach to allocating scarce resources is to start by looking at the grand total and then break it down into its parts, rather than starting with small pieces and working up. The implications for decision-making in respect of dollar levels of IBRD/IDA commitments are twofold.

(a) Bank-wide allocation

Once each year, an allocation in terms of a two-year approved base for every country should be established by the President and Senior Vice President after consultation with and proposals from the regions. This would be done as in October/November 1975 and in August 1976. It would be the main decision-making process for the allocation of IBRD and IDA funds among countries. It



would take place against a background of analysis and discussion in the CPPs, and such other special analytical exercises as would be helpful.

(b) CPPs

The CPPs would serve two functions. First, CPPs would provide the background analysis to enable top management to make the next Bank-wide allocation. To this end, top management would review in the context of each CPP not just the two-year approved base for the country, but also the third year which in the succeeding year would prima facie become part of the two-year approved base. Secondly, the CPP could contain an "advocacy" section in which the case for a larger two-year approved base could be made. Management might explicitly evaluate the case for additional lending, so that, should additional funds become available later, there would be an established framework for deciding which countries merited increased resources. The decision-making in the CPP process however would not normally focus on the level of lending in the fourth, fifth or sixth year.

Changes in decisions

29. It would be desirable to have a system which could accommodate changing Bank-wide resource constraints, i.e. expand, contain or reduce lending amounts while expanding, containing or reducing the numbers of projects. These types of changes are continually recurring in the context of the budget, end-of-year adjustments, and anticipated shortfalls in output. Instead of dealing with each case as a separate problem, it might be helpful for both staff and management if systematic procedures were devised to deal with each of the nine possible contingencies, instead of dealing with

each instance in an ad hoc fashion. The nine cases should be studied, the degree of flexibility determined and the best procedures agreed upon.

C. Budget process

30. The budget is a variety of plan concerned with the relationships of inputs and outputs generally expressed in quantitative terms. In the Bank, the inputs are readily quantifiable in terms of staff positions and administrative expenses. However the inputs necessary to achieve given output are difficult to predict with any accuracy at the country level, on account of the small numbers and wide variances involved. It is only at the regional and Bank-wide levels that there is any stability in the relationship between inputs and output in a single fiscal year. In the Bank, the lending outputs are only quantifiable in terms of the proxy objectives, i.e. numbers of projects and dollar levels of IBRD/IDA commitments. The Bank spells out its substantive objectives at the country level, but its proxy objectives at the country level in a single fiscal year fluctuate so rapidly that only proxy objectives at higher levels of generality than the country (i.e. at the regional and Bank-wide levels) tend to have much meaning in a single fiscal year. The main mechanism for integrating the Bank's substantive objectives at a country level and the proxy objectives for the purposes of the budget process is the Regional Lending Program, which, together with the region's Five-Year Work Program and Budget Proposal, constitutes a comprehensive plan covering every aspect of the region's work. This note will not attempt a review of the Bank-wide budget process but will confine itself to the interaction of the budget process with the lending decision-making processes.

Country lending implications of budget

31. It is possible to decide the output aspect of the budget process either in an aggregate fashion as for FY76 or with specific project detail



as for FY77. The latter approach produces a more convincing plan, provided that all the implications of the plan are understood and approved. Thus for a project-specific plan to be meaningful, it requires approval of the implied country implications of IBRD/IDA. If in the institution, allocations of IBRD/IDA are decided by the President and Senior Vice President, then the project-specific plan is only meaningful if its country implications have their approval. Consequently if the budget process is to include preparation of project-specific detail then the Bank-wide allocation of lending resources mentioned in para 28(a) must take place before the budget preparation. If this is not possible, then the budget should be prepared without project-specific detail and the Bank-wide allocation of lending resources carried out later at some more convenient point.

#### Coordination of the budget process

32. The budget is only as good as the care that has gone into its preparation. If the plan is prepared by a series of ad hoc requests, frequent adjustments and last-minute slashing, the quality of the plan may be jeopardized. This is particularly the case with the project-specific detail which can only be repeatedly integrated in the form of the Regional Lending Program at a considerable cost in "planning fatigue." It has already been suggested above that the project-specific detail for the budget process should be required no more frequently than once a month, and then as part of the regular Monthly Status Report. In addition, an agreed annual timetable for preparing the budget could enhance the quality of the information in the budget plan.

The margin

33. This paper takes the view that the question whether there should be a margin between the World Bank Lending Program (the President's commitment to the Board and the basis for justifying budget resources) and the aggregated Regional lending Programs is substantive, not procedural. In other words, management should have the flexibility to maintain a margin or eliminate it in any year as it sees fit. In any event it is practically impossible to maintain a continuous reconciliation of the aggregated Regional lending Program and the overall Bank target, so that the possibility of a discrepancy needs to be allowed for. The question of how to adjust the numbers of projects and dollar lending amounts should be dealt with under the systematic approach suggested above in para 29.

IV. INTEGRATION OF THE SYSTEM

34. The integration of the system has been implicit in what has gone before. The key to the integration is the formulation of the Bank's substantive country objectives in the context of the CPP and the use of those objectives in subsequent decision-making. The relationships of the overall system are sketched below in Chart 3.

35. The Regional Lending Program is the main integrative device and would use the country assistance objectives as one of the main criteria in the ongoing decision-making as to the content of the Regional Lending Program. The significance of the Regional Lending Program would depend on the time period. In years five and six, it would be little more than a register of new ideas, with scarcely any attempt to constrain the content within



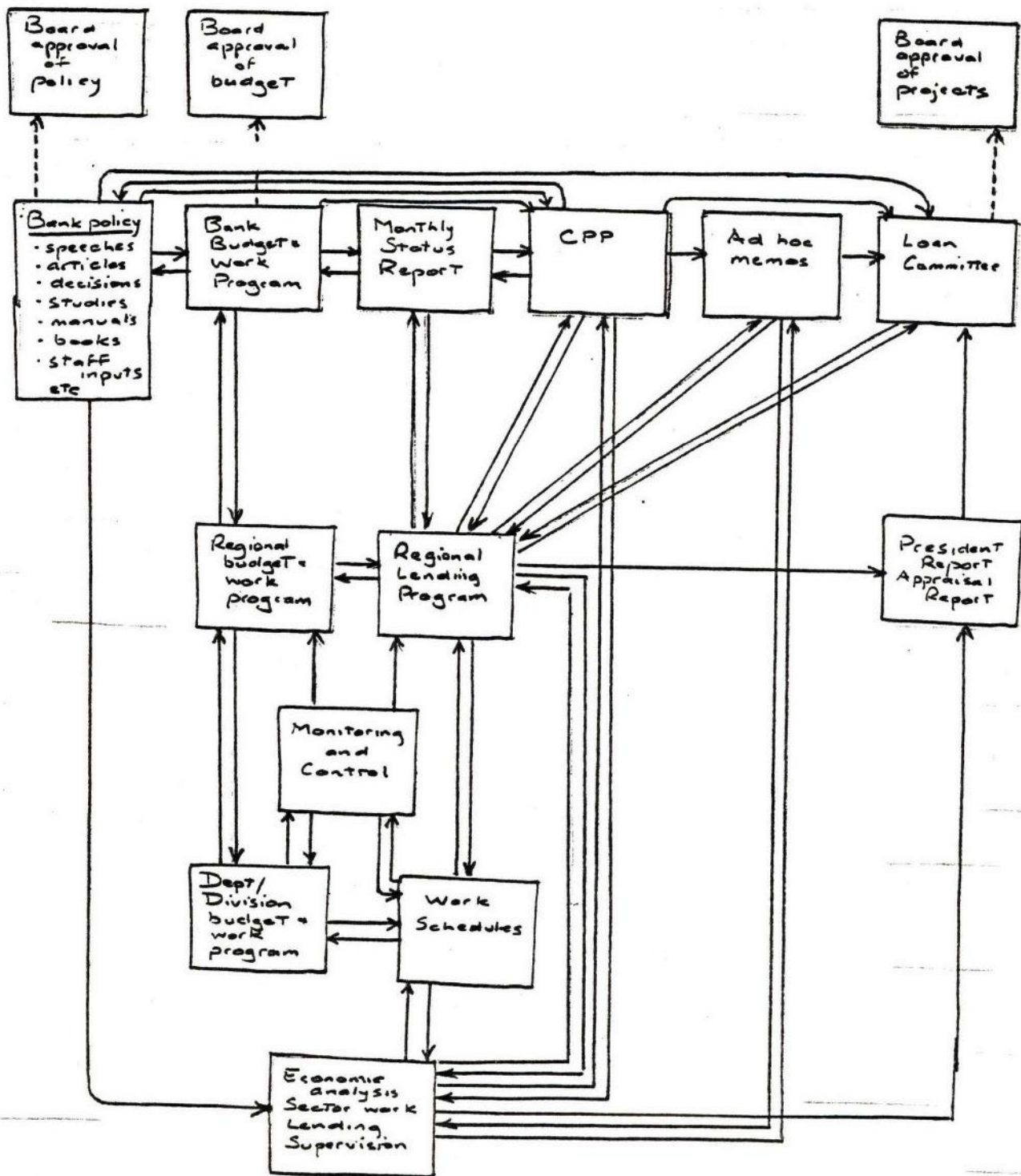
### CHART 3 PLANNING AND CONTROL SYSTEM

BOARD

SECRETARY

REGIONS

DIVISIONS



the processing capacity and all the emphasis on encouraging originality and creativity. In years three and four, the selection process would start in earnest, possibly using the project brief to help incorporate the CPP objectives. In years one and two, the emphasis would be on managing the program within the constraints against the background of the CPP objectives. The Monthly Status Report would comprise years one and two of the Regional Lending Program.

36. The country objectives as formulated in the CPP would also play a role in other ongoing decision-making:

- (a) the issues paper would evaluate the project against the Bank's country and sectoral objectives;
- (b) memoranda to the Loan Committee and ad hoc memoranda to Mr. Knapp, when raising any issue for decision, should normally refer back to the Bank's country and sector objectives;
- (c) the CPP would be integrated into the budget process by way of the Regional Lending Program.

#### V. ALTERNATIVES

37. This paper has been an attempt to make sense of the existing system rather than to create anything new. In this Section, it will glance briefly at some of the further possibilities that might be explored outside the existing system.



38. The notion of planning used in this paper depends on the formulation and appraisal of objectives. The current failure of the CPP to spell out meaningful substantive objectives means that the planning system is condemned to the realm of proxy objectives. If the recommendations contained in Section II cannot be implemented, there are four possible alternatives:

- (a) project planning: this is largely what happens now. The Bank's substantive planning is done at the project level, under a superstructure of proxy objectives at the country, regional and Bank levels. However, much of the proxy planning that occurs does not seem very meaningful to the participants.
- (b) country level: the CPP is an ambitious multi-purpose document. At present, the discussion of level of lending tends to prevent the meaningful formulation of substantive country objectives. If this continues, then the possibility should be considered of splitting the CPP into two separate vehicles, one dealing with the macro-economic situation and the level of lending and the other formulating substantive country objectives for the Bank.
- (c) regional level: if it is difficult to plan substantively at a country level, then it may be even more difficult to do it at the regional level. Possibly regional sector strategies might be formulated to supplement the Bank's country objectives.

- (d) Bank-wide: some more formal expression of the Bank's substantive objectives might be considered as a longer term goal. Clearly it will be a very difficult task.

39. As to the conceptual framework, three possibilities might be considered:

- (a) operations program: while the project-specific lending program forces a very clear presentation of lending plans and should probably be retained for communications between the regions and top management, some regions might prefer to use the old operations program for their own internal management purposes.
- (b) bunching: the present use of fiscal year objectives tends to lead to bunching. The programming system tends to encourage this by dealing only in fiscal years. Any serious attempt to eliminate bunching will involve inter alia taking quarterly or other targets more seriously. One way of doing this, should it be considered desirable, is to have a programming system that distinguishes between quarters as well as fiscal years.
- (c) lending program: some further study may be warranted of the possibility of a more precise terminology which distinguished between ceilings, targets, forecasts and floors.

## VI. CONCLUSION

40. The above proposals are put forward as a basis for discussion to determine whether they could constitute a first step toward clarifying



and codifying the existing system. They are intended to explain the basic idea of the system so that, if they are accepted, the preparation of detailed procedures, forms and instructions would be a relatively clearly defined task.

41. While the proposals use the forms of the existing system, it would be wrong to assume that the existing procedures operate in the manner described above. For them to operate in this way, considerable change in thinking and approach will be needed at many levels. Some experimentation may be required to see whether the procedures can work in this way. Implementation may show that improvements, modifications or regional variations should be introduced. Although therefore the proposals might constitute a basis for codifying the existing system relatively quickly, an extended period of testing and adjustment would be required to bring actual practices and the official procedures in line with each other.

Participative decision-making by program divisions

1. This approach is based on the following considerations. First the country program departments are responsible for the planning of country lending programs, so that this is where the planning is supposed to be done. Secondly, to maximize the commitment to implement decisions, it is important to push all possible decisions to the bottom of the decision pyramid. It is at the divisional level that the detailed project knowledge necessary for planning exists. Thus country lending decisions should, if possible, be taken at the divisional level within a framework of objectives agreed with higher management. Thirdly, the reason why decisions are not taken in the country program divisions now is that each country program division has the detailed project knowledge, but lacks the regional perspective necessary to plan effectively. No guidelines can give it that perspective because the permutations and combinations of 30-50 projects in up to 20 countries and 10 sectors are essentially unpredictable. To plan country lending effectively, one has to know what else is being planned in the region and then decide what has priority. However, the country program divisions together have all the necessary elements to plan the region's lending. Fourthly, if the country program divisions would cooperate with each other, they could effectively plan the country lending, and hence exercise their assigned function. If, on the other hand, the country program divisions either compete actively with each other for processing resources or fail to communicate and coordinate their proposals with each other, they will not exercise their assigned function of planning country lending programs effectively. The making of country submissions to the Program Director or Program Coordinator is a highly ineffective form of



communicating and cooperating with the other program divisions. It puts the program division in the position of making proposals without having the necessary elements to know whether its proposals are consistent with the criteria for a satisfactory decision. Consequently, the division tends to maximize its requests and ends up competing with the other program divisions for scarce processing resources. In practice this results in the planning decisions being taken centrally within the region by the RVP, Program Coordinator, Projects or Program Director. By failing to deal directly with the other program divisions, each program division is effectively delegating its planning responsibility back to the center. It can propose but others dispose. The result is a sense of powerlessness. It is of course more than a sense. The division will always play a subordinate role under the formal decision-making procedure unless and until it starts cooperating with the other program divisions in an effort to arrive at the best regional decision. A frequent reaction of the program division, however, is to stop taking the official decision-making seriously and to press on as best it can under informal arrangements with the projects divisions. This strategy may succeed in the short run in getting out a program, but can in the long run be damaging both to the morale of the division's staff and to the effectiveness of the overall planning system. Nevertheless it is not a necessary result and could be avoided if the country program divisions cooperated with each other and participated in taking programming decisions as a group. The next paragraph will try to explain how this might be accomplished, if so desired.

2. There are a number of conditions that would have to be met to permit participative decision-making by the country program divisions.

- (a) substantive country and sectoral objectives must have been established for each country.

Unless the CPP has already spelt out the Bank's objectives in each country, there will be little common ground for discussion. Thus if all divisions are keeping all their options open, then there is little foundation for participative decision-making. A joint meeting of the program divisions, for instance, is likely to result in a competitive bargaining session characterized by adversary behavior, unless considerable preparation has been done by formulating clear country and sectoral objectives for each country.

- (b) overall decision criteria must have been established.

This is discussed in para 22. It is especially important if participative decision-making is to be possible for same reasons as given under (a) above.

- (c) there must be a clear and continuing commitment on the part of the regional management to participative decision-making

If the Regional Vice President or the Program Directors wish to retain centralized decision-making, by encouraging competition between program divisions, there is very little prospect of the country program divisions being able to cooperate effectively. The effect of competition between program divisions is that the



regular day to day planning decisions are taken centrally by the RVP, Program Coordinator or Program Director. Participative decision-making would mean that regional management intervention in the planning process would be in the form of a review rather than by taking most of the planning decisions as now. It is not enough for regional management to say they support participative decision-making. They must support the endeavor on a continuing basis by acting so as to encourage the program divisions to cooperate in taking joint decisions from a regional viewpoint.

(d) there must be some commitment in the group to cooperate

There is at present very little perceived need or desire among the program divisions to cooperate with each other. This is particularly so where the program divisions are split into two departments. Unless there is some support for cooperation, there is little prospect of participative decision-making developing.

(e) the skills necessary for participative decision-making may need training

Experience in other institutions shows that groups accustomed to competing or acting in an adversary competitive way do not move easily to a participative approach. The change needs a great deal of time and effort, often with the help of training courses.

- (f) detailed procedures are worked out so as to integrate decision-making with the projects departments and the regional management

There are a number of alternative procedures for achieving these integrative goals. The choice should be made in the context of the actual implementation of the overall approach within a particular region.

3. Until condition (a) is met, participative decision-making cannot be seriously contemplated. Resolution of conditions (d) and (e) will also take time. Immediate implementation of the approach is therefore impracticable. Instead one might envisage a planned step-by-step introduction lasting about a year.



Summary Analysis of CPP for Country A

1. The Postscript does not refer to Bank's substantive objectives in the country, except by confirming the proxy objectives ("the size and composition of the lending program were about right"). Apart from the allusion in para 4(d), there is no statement of the Bank's substantive objectives in the country in the Conclusions and Recommendations which focus on the size of the program.

2. The second sentence of para 57 possibly states either a major objective or the major objective. It is not clear which. It says "The proposed Bank program is designed to assist in the improvement of sector and sub-sector programs and the financing of projects which generate broad policy or institutional improvements." The objective is very general but possibly not sufficiently wide to justify the power or transport lending which seems to be mainly aimed at resource transfer. Moreover it is not really clear whether the major objectives include the following themes which appear when they strengthen the case for the lending program but disappear when they might call it into question.

- (a) to benefit lower income people (e.g. para 58 for agriculture, paras 59, 67, 69, 71);
- (b) expanding employment (e.g. para 58 on industry, para 72);
- (c) regional development (para 58 on industry, paras 71, 72, 76, 82);

3. It is not clear whether the failure to state these objectives explicitly as principal country objectives is due to (a) the fact that they are not principal objectives or (b) a concern that projects which did not meet the objectives would come under fire or (c) the fact that the writer is not trying to say what are the principal objectives or (d) a preference for keeping the options open.

4. Several hours' analysis is required to identify and classify all the main themes. Even then the principal country objectives and most of the sectoral objectives remain a matter of interpretation, and it is difficult to feel confident that the CPP results in any consensus as to the principal objectives, except the proxy objectives represented in the lending program.

Assessment as a planning instrument

5. The CPP can be rated as follows:

- (a) formulation of objectives: The writer is aware he should be formulating objectives but in the end fails to do so clearly and unambiguously.
- (b) appraisal of objectives: No attempt is made to appraise objectives.
- (c) formulation of actions: The activities (or lending program) are fully articulated.
- (d) appraisal of actions: Little attempt is made to appraise actions in the light of the objectives. Objectives are used on an ad hoc basis to justify actions but not to question them.



Postscript

84. This paper was reviewed at a meeting in Mr McNamara's office on June 4, 1976, and the following conclusions were reached:

- a) The size and composition of the lending program were about right, provided that the Government continued to manage the economy effectively and the country was able to expand exports at the rapid rate projected in the CPP since this could affect the country's creditworthiness. The Region would continue to monitor developments in these areas very closely with a view to making adjustments in the lending program should this prove to be necessary.
- b) The total lending program for FY77 should be reduced from \$335 to \$315 million, by reducing the proposed loan for the seventh power project from \$85 to \$65 million.
- c) Local cost financing in the [redacted] should be limited to 40 percent of total project costs rather than to 50 percent as had been proposed in the CPP.

- Note (1) overall emphasis on size of program
- (2) reference to proxy objectives: size and composition of program
- (3) absence of reference to substantive objectives of the Bank in the country.

A. CONCLUSIONS AND RECOMMENDATIONS

1. The last CPP for the [redacted] was reviewed by Mr. McNamara in December 1973. A SPP was reviewed in July 1974. At that time, it was agreed that the next CPP would be reviewed in FY76 following completion of the Basic Economic Report.

2. At the time of the SPP review, the Bank's senior management approved a lending program increasing gradually from \$315 million in FY76 to \$330 million in FY80, aggregating \$1,505 million. In the Bank-wide lending program review in July 1975, the FY76 lending program was reduced to \$277 million and a FY77 program of at least \$300 million was approved. During the subsequent lending program review in November 1975, the FY77 program was raised to \$320 million.

Background information on size of program

3. The lending program that is now proposed for the FY76-80 period totals \$1,568 million. This program is only \$63 million (4.2 percent) larger in terms of current prices than the program approved in July 1974. In terms of amounts, the proposed program is consistent with the Regional FY76-81 lending program submitted to P & B in the Region's memorandum of April 23, 1976, but minor adjustments have been made in the amounts and timing of some loans mainly to accommodate the addition of a rural electrification project in FY79.

The main thrust is an increase in the program

4. The proposed program is based on the following major considerations:

- (a) The Government is expanding its development program to provide for more rapid future growth and a broader distribution of economic benefits. This program, which takes into account the critical need to expand foreign exchange earnings and employment, would, if implemented over the next ten years, (i) provide sufficient food for the [redacted] expanding population; (ii) ensure at least a minimum increase in the standard of living and thereby help to alleviate the poverty of the lowest income groups; and (iii) absorb the rapid increase in the labor force, which is the inevitable result of past population growth. Should there be a major shortfall in the implementation of the program, unemployment would rise, standards of living would decline for large segments of the population, income distribution would deteriorate and effective economic management would become very difficult.
- (b) The Government is managing the economy well in the currently difficult economic circumstances and is generally pursuing policies which are conducive to the longer term development of the country. The [redacted] has reasonably good natural resources and relatively well-developed human resources; once international conditions improve, the prospects for a higher growth rate and more balanced future development are good.

Government's objectives

Government's performance



- 2 -

(c) The Government has under preparation a large number of projects to support its development program, many of which are designed to provide substantial benefits to low income groups; its performance in implementing existing projects has been excellent. The Government's significantly improved project preparation and implementation capability therefore provides a sound basis for a large external borrowing program.

Government's program

(d) While economic management is good, the Government needs assistance in further improving and refining its policies in a number of sectors and in strengthening the capacity of public sector agencies to plan and administer expanding development programs, particularly those which involve assistance to large numbers of people in rural areas. The Bank can continue to play a major role in this process because the Government is receptive to Bank staff advice. An active Bank presence also has the effect of strengthening the position of the highly capable technical leadership in the Government and helping them to implement policies that foster development.

This paragraph alludes to Bank objectives, rather than stating them directly.

(e) Even with the expected improvement in the mobilization of domestic resources to which the Government is committed, the [REDACTED] will need to borrow large amounts from abroad. We estimate that the [REDACTED] will need commitments of assistance from official sources of at least \$3 billion over the next five years to finance its development program and to maintain the satisfactory structure of its external debt. Official development assistance will also help to bring about the institutional improvements necessary for increased lending by non-official sources, which should also provide substantial amounts on favorable terms. Official development assistance has for historical reasons been relatively low in the past and is likely to decline in real terms during the coming years. The [REDACTED] will therefore have to rely heavily on the Bank, ADB and other semi-concessional sources to help finance its development requirements. The Bank Group's share of total public debt outstanding is currently about 19 percent and is projected to rise to as much as 28 percent in 1980 and 29 percent in 1985, with a declining trend thereafter. This situation, however, should not give cause for concern so long as the Government continues its sound debt management policies and the debt-service ratio does not exceed the projected peak of 18-19 percent in the early 1980s.

Government's need for external resources

Government will have to rely on Bank.

(f) The Bank's per capita lending to the [REDACTED] of \$7.80 per annum for the period FY76-80 and \$8.08 for the period FY77-81 would be about average for countries of similar size and income.

Level of lending would be about average

5. The proposed level of lending to the [REDACTED] is justified in the light of the development requirements, high absorptive capacity, and relative lack of access to alternative sources of official assistance 1/. The proposed lending program is, however, predicated on the assumption that the good general management of the economy will continue, that the Government will intensify its efforts to assist lower income groups and that external debt will continue to be kept within manageable limits. Should any of these pre-conditions no longer apply, the lending program would be reviewed with a view to making necessary reductions.

Final plea for increased lending



## E. BANK GROUP STRATEGY

## Comments

56. Part B has described the need for a larger investment program with special emphasis on measures to increase employment and strengthen the balance of payments. The Government's overall policies are broadly in line with these objectives, although further efforts will be needed to refine policies in specific areas and to improve the capacity of public agencies to implement more effective sectoral programs. In most sectors, the Government will also need to strengthen the capacity of regional and local institutions to plan and implement programs which are more closely attuned to the resources and needs of different areas of the country.

57. The considerations which justify a large and diversified lending program are set out in para 4 above. The proposed Bank program is designed to assist in the improvement of sector and sub-sector programs and the financing of projects which generate broad policy or institutional improvements. In this regard, considerable progress is possible because the Government is responsive to the Bank's suggestions and already has relatively well developed human resources to implement its programs. The Bank will continue to provide technical assistance, particularly to less experienced project agencies, but will also respond to opportunities for further strengthening local capabilities through measures designed to improve manpower planning and training, and increase the participation of local consulting firms and civil works contractors.

58. The sectoral distribution of the program gives particular emphasis to agricultural and rural development, which would account for more than one-third of total lending, because there is considerable potential for improving agricultural and other production in rural areas where the bulk of lower income people live and it is in these areas where Government programs most need to be strengthened. The Bank's lending in this sector would concentrate on the financing of projects which would support the Government's objective of increasing the productivity of small farmers and would strengthen the Government's irrigation, credit, extension, and other rural development programs. In the industrial sector, which would account for 15 percent of total lending, the Bank would continue to provide necessary financial and institutional support for DSP's large-scale industrial program, and would increase and diversify the support provided to the Government to promote the small and medium industries essential for encouraging regional growth centers and expanding nonagricultural employment in areas outside of ~~the~~ the transportation and power sectors, which would account for nearly one-third of total lending, the Bank would concentrate on the provision of badly-needed infrastructure, which continues to be a constraint on growth, and on the manpower development and institutional improvements necessary for public sector agencies to plan and implement rapidly expanding programs. Lending to social sectors would expand to 18 percent of the total, mainly due to the rapid expansion in our lending for urban development projects. In the urban field, the Government is still in the early stages of developing much larger programs for housing, water supply, sewerage and other services in ~~the~~ and other cities; the Bank program would concentrate on the financing of projects designed to help create an appropriate policy and institutional basis for carrying out these programs. The national family planning program has made good progress in the last several years and the Bank would continue to provide assistance to the Government in support of this important effort.

The objective is embedded in the middle of a paragraph. It is implicitly a major or even the major objective. However this is not explicit and there is no analysis of its implications

Further objectives, which are subobjectives of the objective in the second sentence

Allusions to the objective of helping lower income people. Is this also a major objective?

Allusion to employment objective. Is this a major objective or an intrasectoral objective?

How does financing infrastructure relate to the apparent major objective in para 57?

Adoption of major objective in para 57 for this sector, but no analysis of its implications.

## COMPOSITION OF THE LENDING PROGRAM (PERCENT)

	FY69-75	Current FY76	FY77-81
Agriculture and Rural Development	31	31	34
Social Sectors (Education, Population and Urban Development)	7	21	18
Transportation	20	-	13
Power	17	-	20 /a
Industry	25	28	15

/a This includes part of the lending for the multipurpose irrigation projects, which will provide facilities for power generation, and a loan for the Bank's first rural electrification project in the



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59. The lending program is expected to have a significant social impact as 55 percent of total lending is for projects providing substantial direct benefits to low income people. Careful attention has also been given to the geographical location of projects with greater priority than in the past given to low income areas of the [redacted].

Allusion to benefits for low income people. Is this an objective?

60. The total amount of the proposed FY77-81 lending program of \$1,625 million would provide about 18 percent of the estimated commitments of medium and long-term loans and 16 percent of the estimated commitments on concessional and semi-concessional terms required during the period. In nominal terms, the proposed program for FY76-80 of \$1,568 million is \$63 million (or about 4.2 percent) larger than the program approved in July 1974 on the basis of the SPP. Thirty-five million dollars, or over half of this increase, can be accounted for by the additional effect of Third Window financing. In real terms, the proposed increase would be 4.1 percent. The proposed lending program for FY76-80 would amount to about \$7.80 per capita per annum (\$4.69 in constant FY74 dollars), which appears to be about average for countries of similar size and income <sup>1/</sup> and is reasonable given the [redacted] poverty, development requirements, good economic performance, high absorptive capacity and relative lack of access to alternative sources of official assistance. In terms of number of projects, the FY77-81 program includes 34 projects, which compares to the 38 projects approved for FY76-80 on the basis of the SPP. As a result of inflation and the growing absorptive capacity of Government agencies, the average loan size would increase from \$44.5 million during FY77-79 to \$53.8 million during FY80-81.

Size of program discussion.

61. It should be possible to implement a lending program of the proposed magnitude because of the advanced state of preparation of projects in the early years and the good prospects for substituting alternative projects in the future if necessary. The proposed FY77 and FY78 programs are based on the present status of project preparation and take into account the known possibilities for co-financing. <sup>2/</sup> Of the eight projects in the FY77 lending program, four projects amounting to \$240 million will be appraised before the end of the current fiscal year and the program is backed up by a number of standby FY78 projects which would be brought forward if the need arises.

Further discussion of size of program.

62. The share of the Bank Group in public debt service payments is expected to increase from 10.8 percent in 1975 to 14.2 percent in 1980, 16 percent in 1985 and 18 percent in 1990. Total Bank Group loans outstanding and disbursed are expected to increase from 19 percent of total public debt outstanding in 1975 to 28 percent in 1980 and 29 percent in 1985 and will decline thereafter to 26 percent by 1990. The Bank Group's share of total outstanding and disbursed medium and long-term private and public debt is expected to increase from 10 percent at present to 19 percent in 1980 and 21 percent in 1985 and 1990. The [redacted] share of total Bank loans outstanding and disbursed in 1980 will be 3.9 percent. While the Bank will account for a relatively high portion of the [redacted] public debt, this situation can be tolerated given the continuance of sound debt management policies and moderate debt-service ratio and the limited [redacted] access to other concessional financing.

63. Total Bank Group disbursements for the period FY77-FY81 are estimated to be \$1,108 million, which would be equal to about 15 percent of the [redacted] projected gross receipts from medium and long-term loans and 31 percent of foreign assistance on concessional or semi-concessional terms. The net transfer of Bank Group resources during this period would be \$662 million.

Further discussion of size of program

64. The size and composition of the [redacted] lending program is such that if the capital inflow target is to be achieved, external assistance would need to exceed that which would become available if only foreign exchange requirements of projects were to be financed. The program includes a number of projects, particularly agricultural projects, which would significantly increase productivity and incomes of poor segments of the population, but which need only limited amounts of foreign exchange. We estimate that there would be approximately six such projects in FY77 and FY78. We therefore propose to finance local costs in appropriate cases, normally in amounts sufficient to bring Bank financing to 50 percent of the total cost of an individual project.

65. Manpower and Staffing Requirements: We estimate that the lending program will absorb about 20 percent of the Region's planned lending and supervision manpower over the FY77-FY81 period. Given the rise in the number of Bank-financed projects in the [redacted] and the concomitant increase in the supervision workload, we have given consideration to the possibility of establishing a small resident office in [redacted]. In addition to assisting in loan administration and supervision, such a mission would be useful in helping to maintain a close link with [redacted]-based agencies such as the ADR, to keep in close touch with current political and economic developments and to adjust our operations in keeping with current circumstances. However, the need to establish a Bank resident office does not appear to be urgent because of our close working relationship with the Government; we have decided therefore against making a positive recommendation at this time.

66. The Economic and Sector Work Program: The lending program will be supported by a large and diversified economic work program. We will continue to prepare a country economic memorandum each year for the annual meeting of the Consultative Group. We also plan a series of sector and special studies. Initially, these would concentrate on a number of problem



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areas identified in the Basic Economic Report, including nonfarm rural employment, export potential, effective protection and labor-intensive, regionally-dispersed manufacturing. We also plan to review progress in agrarian reform and the improvement of agricultural supporting services. For the later years of the five-year program, we have tentatively scheduled studies of the financial sector, public finance and the role of the public corporate sector. There will be sector surveys in water supply and sewerage, education and power. In addition, we are serving as executing agency for UNDP-financed projects in the fields of regional planning, tourism, and highway pre-investment studies.

F. BANK GROUP PROGRAM

67. Agriculture and Rural Development: The Bank's lending for agriculture and rural development is designed to assist the Government in increasing the productivity and incomes of small farmers/producers through: (a) increasing rice production by improving and expanding irrigation and other supporting services; and (b) strengthening the institutional support for agriculture and rural development programs through projects designed to improve the agricultural credit system to make it more responsive to the needs of smaller farmers, the relatively weak extension services, the provision of rural infrastructure, the presently ineffective land settlement program, and the Government's capability to undertake integrated rural development projects.

68. With respect to (a) above, the FY77-81 program provides for \$395 million to finance three priority irrigation projects identified by the National Irrigation System Improvement Study (financed under Loan No. 1080-), and three large multipurpose water storage projects suitable for co-financing and one other irrigation project. NIA has developed considerable capacity to plan and implement the irrigation program and is effectively carrying out the existing projects.

69. With respect to (b) above, we plan in the context of all of our agricultural and rural development projects to work with the Government in strengthening the institutions providing agricultural services to farmers; we have included eight loans totalling \$270 million which focus on specific aspects of this problem. We are currently appraising a fourth agricultural credit project which will provide credit to farmers for a wide variety of purposes through the more than 700 rural banks in the [redacted]. The first three such projects have been successful in using the rural banking system for providing long-term credit to many middle income farmers; in the context of the fourth agricultural credit project, we plan to make this program more responsive to the needs of smaller farmers. The Government is also initiating a new agricultural credit program, with special emphasis on land reform beneficiaries, through the Land Bank; we are considering a project to assist this program. We have previously made separate loans to support DBP's livestock, fisheries and grain processing programs. After the proposed loan for the tree farming project in FY78, we are planning to continue this assistance for agricultural development with a single multipurpose loan for DBP in FY80.

70. Agricultural extension is weak in the [redacted] and our fourth education project scheduled for FY77 is specifically directed to improving the level of agricultural training; it provides, inter alia, for rural training centers for extension workers and the establishment of farmer training centers. We also have and will continue to include in the context of our other agricultural projects specific components for strengthening the supporting services provided by relevant bureaus of the Department of Agriculture. The Government has a number of programs for providing rural infrastructure to local communities and we have included a project in FY79 which would help expand and improve rural roads, irrigation, health, water supply, and health programs in selected provinces.

71. The lending program also provides for one project in FY77 designed to help the Government improve its ineffective land settlement program which provides infrastructure and supporting services in relatively unpopulated areas for low-income settlers migrating from densely populated areas of the country. Finally, the lending program provides in FY79 for an integrated rural development project on [redacted], one of the poorest islands of the country.

72. Industry: The Bank Group lending in the industrial sector is designed to help: (a) expand and diversify financial and technical assistance programs for small and medium-scale industries which can lay the basis for regional development and employment creation; (b) strengthen DBP and other financial intermediaries which play a major role in the financing of industrial development; and (c) finance the planned ammonia/urea fertilizer complex to help the Government assure its technical and economic viability and to reach satisfactory financial arrangements with other foreign sources.

73. The FY77-81 lending program includes one loan to support a major industrial investment: an ammonia/urea fertilizer plant with a capacity of 1,500-1,700 tons per day which, when completed, would allow the [redacted] to produce about 70 percent of the domestic requirements for urea by the early 1980s. In the longer term, there are good prospects in the context of ASEAN for regional cooperation for fertilizer production based on the comparative advantage of individual countries; the [redacted] would concentrate on the production of phosphatic fertilizer and import the balance of its urea requirements from Indonesia.

74. The balance of our lending for industry (four loans totalling \$215 million) would be for financial intermediaries for relending to the private sector. In the context of our two large-scale industrial loans to DBP, we have had considerable success in building up the overall financial and institutional capacity of this extremely important institution and plan to continue this effort. Our future industrial loans for DBP in FY78 and FY81 would help finance the requirements of both large and small and medium industries, which have previously been financed under separate projects.

Relatively clear statement of intra-sectoral objectives which again imply that helping low income people is an objective.

How do these projects relate to the objective?

Good illustration of developing project in first two years in reference to objective. However no discussion of other agriculture projects in first two years. No reference to choices to be made for third and fourth years and the alternatives available, apart from land reform project.

How does the tree farming loan relate to the objectives?

How long will it take agricultural training to affect agricultural extension? Can anything else be done?

Is this project as firm as this implies?

Relatively clear statement of intra-sectoral objectives which imply that regional development and employment creation are among the major objectives.

How does this loan relate to country objectives? Can anything be done to make it contribute more?

How long can institutional building justify lending to DBP?



75. We also plan to continue our support, begun under Loan 1120-00, for separate programs for lending to small and medium-scale industries by commercial banks and other financial intermediaries; such loans are scheduled for FY78 and FY81. We are also considering the possibility of building into these projects components for small regional industrial estates and equity investment through a new publicly-owned venture capital organization.

76. Urban Development: The Bank's lending program is designed to assist the Government in: (a) providing for urgently needed infrastructure, social services and employment in the Metropolitan Area; and (b) providing similar assistance to other urban centers throughout the country to help them to develop into alternative growth centers. The first urban development project, which is scheduled to be presented to the Executive Directors in May 1976, will help upgrade one of the worst slums ( ), develop a first phase sites and services settlement at nearby ( ), and provide substantial technical assistance to the recently-established Metropolitan Commission and National Housing Authority. This project is to be followed by two more projects of essentially the same type in ( ) and, possibly, other cities. A first sewerage project is planned for ( ) in FY80. In addition, the lending program includes two loans, one in FY77 and another in FY80, for improving water supply systems in municipalities outside ( ).

77. Education and Training: The key elements of the Government's strategy for education are: (a) to raise the quality of elementary and secondary education through curriculum reform and the provision of more and better textbooks; (b) to increase the relevance of the system to national needs by improving facilities for industrial and agricultural training; (c) to redress imbalances of educational opportunities between urban and rural areas; and (d) to improve management through a reorganization of the Department of Education and the adoption of modern management practices. The Bank's program in the sector is designed to support this strategy. The recently-approved Third Education Project includes textbook production and distribution, assistance for management systems in the Department of Education, and a mass media pre-investment study. The Fourth Education Project scheduled for FY77 will support farmer training, training of extension workers, and higher agricultural education. A FY80 project will continue our support of the Government's textbook program and, possibly, help finance a program of mass education through use of mass media.

78. Population: The successful ongoing Population Project, which consists of construction and rehabilitation of Rural Health Units, training of personnel for family planning work in the rural health services, and improvement of supply logistics and management systems, will be followed by a second population project in FY80.

79. Power Sector: Demand for electricity is expected to grow by 11 percent a year during the coming decade. Failure to meet this demand would constrain industrial growth, which is essential to deal with the balance of payments and employment problems. The Government's program calls for generating capacity to almost triple over the decade, while capacity operated by the National Power Corporation (NPC) - including acquisition of existing private sector capacity - would increase by a factor of ten.

80. The ( ) will not be able to meet the financial and technical requirements of the power development program without substantial assistance from foreign sources. The Bank's FY77-81 lending program includes two power loans, amounting to \$180 million, to assist NPC with its power generation and transmission program, and three multipurpose water storage projects which include hydroelectric components. The next Bank-financed project, scheduled for FY77, would include substantial provision for a manpower development program to assist NPC to train its staff, particularly those in the managerial and supervisory categories. Bank assistance is expected to help NPC through a period of very rapid expansion, as the Bank will play an important role in assisting NPC to make the organizational, managerial and policy changes which will be necessary to permit the rapid growth in its operations.

81. The successful ongoing rural electrification program has extended electric service to about fifty rural electric cooperatives representing more than a million people. USAID, which has provided most of the external financing for the program in the past, is now phasing out its support and the Government is requesting financial assistance from the Japanese Government, ADB and IBRD. A loan of \$25 million for this purpose has been included in the FY79 lending program.

82. Transport Sector: The Government plans investments of about \$1.6 billion in the transportation sector over the 1976-79 period. Our lending operations are intended to provide a share of the resources needed for this program and to help the Government develop policies and planning procedures for greater efficiency in the transport system. Assistance in transport planning is being provided under the ( ) Urban Development Project (see para 54). The two highway projects included in our program will finance feeder roads as well as national highways, and will broaden our involvement in the highways sub-sector from ( ) to the ( ) and ( ). The second inter-island shipping project in FY77 will help relieve the constraint on the development of some of the less developed islands of the ( ).

83. IFC: IFC has made commitments in the ( ) totalling \$76.2 million for investments in thirteen companies in the fields of development banking, power, telecommunications, ceramic tiles, paper, petroleum products, nickel mining and refining, chemicals and synthetic fibers. Preliminary proposals have been received for an aluminum smelter and other projects in the fields of pulp and paper, dinnerware, metal alloys, and shipbuilding. In the capital markets area, IFC's Capital Markets Department is providing assistance in a number of financial areas relating to securities markets and mortgage banking.

How far do these loans meet the objectives in para 72(2)?

Is the development of alternative growth centers the sole basis for (b)? If not what are the other objectives? Is it the Bank's objective to promote development of alternative growth centers?

Is this the best way of achieving the sectoral objectives of developing alternative growth centers?

These objectives seem to mix general objectives (increasing system's relevance to national needs and redress imbalances in opportunities) with specific objectives (curriculum reform, management practices). The result is an impression of fuzziness.

What are the Bank's objectives in this sector?

What are the Bank's objectives in the power sector? How do they relate to the overall country objectives? Do manpower development and institution building also justify the FY81 loan? What has been achieved so far?

How does resource transfer fit into the overall country objectives?



1. This annex provides background analyses of the budget process (para 2-4), the day-to-day decision-making process (paras 5-11), the shape of the project pipeline (paras 12-18), and the overall object of the planning system (para 19).

## Budget process

2. One of the most important decision-making processes with which the CPP must be integrated is the budget process. The budget is a variety of plan concerned with the relationship between inputs and outputs, generally expressed in quantitative terms. The budget process forces managers to go through the discipline of expressing the ends sought in concrete terms and making explicit the specific means to achieve the ends. In the case of the Bank, the means or inputs are readily quantifiable in terms of staff positions and administrative expenses, but the ends or output in relation to lending are only quantifiable in terms of the proxy objectives, i.e. numbers of projects and dollar levels of IBRD/IDA commitments. The fact that the Bank's substantive objectives cannot be quantified has important implications for the nature and meaning of the budget process. In the first place, the substantive objectives and the proxy objectives do not always correspond exactly. In fact, unqualified pursuit of the proxy objectives could undermine the attainment of the substantive objectives. As a result, the meaning of the proxy objectives as standards of performance is never unambiguous. Secondly, given the variable content of Bank

projects, the validity of using numbers of projects as a measure of the Bank's technical assistance objectives increases as the number of projects involved increases. Thus, with small numbers of projects, there may be only a haphazard relationship between the number of projects and the technical assistance objective. With larger numbers of projects, the element of chance is diminished. Thirdly, given the uncertainty attached to project work and the usually small number of projects for any single country in a fiscal year, it would be very difficult for the Bank to set and meet meaningful proxy objectives in terms of the numbers of projects in a fiscal year for all countries without either maintaining an uneconomic number of standby or reserve projects or compromising its substantive objectives in some countries. On the other hand, it is possible for the Bank to set and meet meaningful proxy objectives in terms of a certain number of projects in a fiscal year for a region or for the Bank as a whole, by preparing a limited number of standby projects to replace <sup>projects which slip or drop.</sup> Fourthly, there is no organizational unit within the regions clearly responsible for the achievement of proxy objectives at the country level. Thus the program division is not responsible for the preparation and appraisal process, while each projects division processes fragments of different country lending programs. Country lending programs cut across organizational lines within the region, so that when a project in one country lending program slips or drops, a decision to advance a replacement project may affect not only other country lending programs but also the work of divisions not involved in the original change. Thus a change in one country lending program can have ripple effects throughout the region, so that a proposal to change a country lending program often raises a regional issue. In this environment, country lending objectives in terms of numbers of projects can be



formulated, but in practice have little practical significance except as fluctuating elements of the region's proxy lending objective in terms of numbers of projects.

3. The overall result is that whereas the Bank spells out its substantive objectives at the country level in the context of the CPP, it tends to spell out its proxy objectives at higher levels of generality than the country, i.e. at the regional and Bank-wide levels. There seems nothing inherently wrong with this arrangement, provided that there are mechanisms for integrating the substantive objectives at the country level with the proxy objectives at the regional and Bank-wide levels.

4. The CPP itself does not provide such a mechanism. In O.M.1.12 it is said that CPPs "provide the basis for annual budgets and five year work programs." However if this means that the annual budget should represent a "costing-out" of previously made CPP decisions, it appears unrealistic. Both levels of lending and administrative resources are constrained by the Bank-wide availability of funds which is often not known in advance. Quite apart from the rapid changes which affect individual country lending programs, it is highly unlikely that a set of sequential CPP decisions made annually or biennially on each of 75 countries will exactly anticipate the Bank-wide decisions and forecasts made at the time of the annual budget. Thus although the CPP can provide the country development objectives which should help determine and justify the inputs and outputs chosen in the course of the budget process, there have to be mechanisms for preparing the annual budget which do more than simply cost-out the CPP decisions. The main mechanism for achieving the integration of the Bank's substantive country assistance objectives and the region's proxy objectives for the purposes of the budget process is the Regional Lending Program, which, together with the Region's Five Year Work Program and Budget Proposal, constitutes a comprehensive plan covering every aspect of the region's lending work.

Day-to-day decision-making processes

5. The Regional Lending Program, which is a kind of "rolling file" maintained by the Program Coordinator to record and update the region's lending plans, is also a key instrument for integrating the country development objectives as determined in the CPP process into the day-to-day decision-making. The successful integration depends in part on there being general agreement as to what are the major country assistance decisions that need to be taken and when they need to be taken. Several recent memoranda have questioned whether there is such general agreement (e.g. Mr. Kearns' memorandum to Mr. Votaw of March 19, 1976 on the "Program Functions Problem" and a paper entitled "Programming of Lending" dated June 21, 1976). While it may be surprising that such a basic matter is in question at all, clearly any attempt to clarify the operation of the existing programming system should put the matter beyond doubt by making explicit what are the principal country assistance decisions that need to be taken. Part of the difficulty may derive from the fact that the concept of the five year lending program, which performs the essential function of providing an agreed horizon for discussion of future country assistance, tends to obscure the very great differences between the years of the five year lending program.

6. The main elements of the decision-making processes are:

- (a) generation of new project proposals: It is essential for a healthy institution to have a steady flow of new project proposals, coming from within the institution or from outside the institution (e.g. governments, institutions within client country, consultants) or from a joint effort inside and outside the institution. An OED study of 300 projects in 1972-1974 found that for as many as 40% of the projects the conception of the project within the Bank preceded the conception of the project in

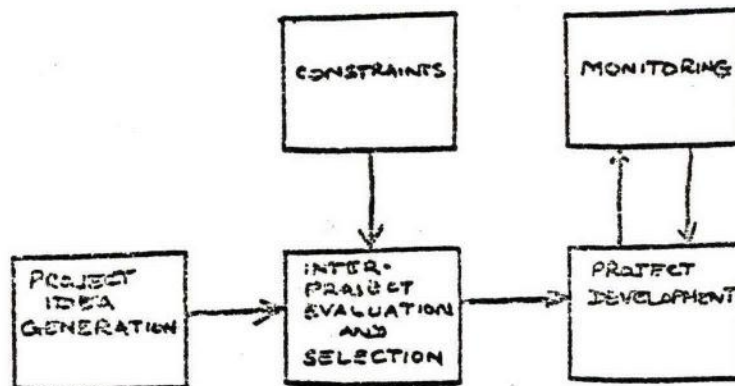


the borrowing country, as now seen by the borrowers (SecM76-100).

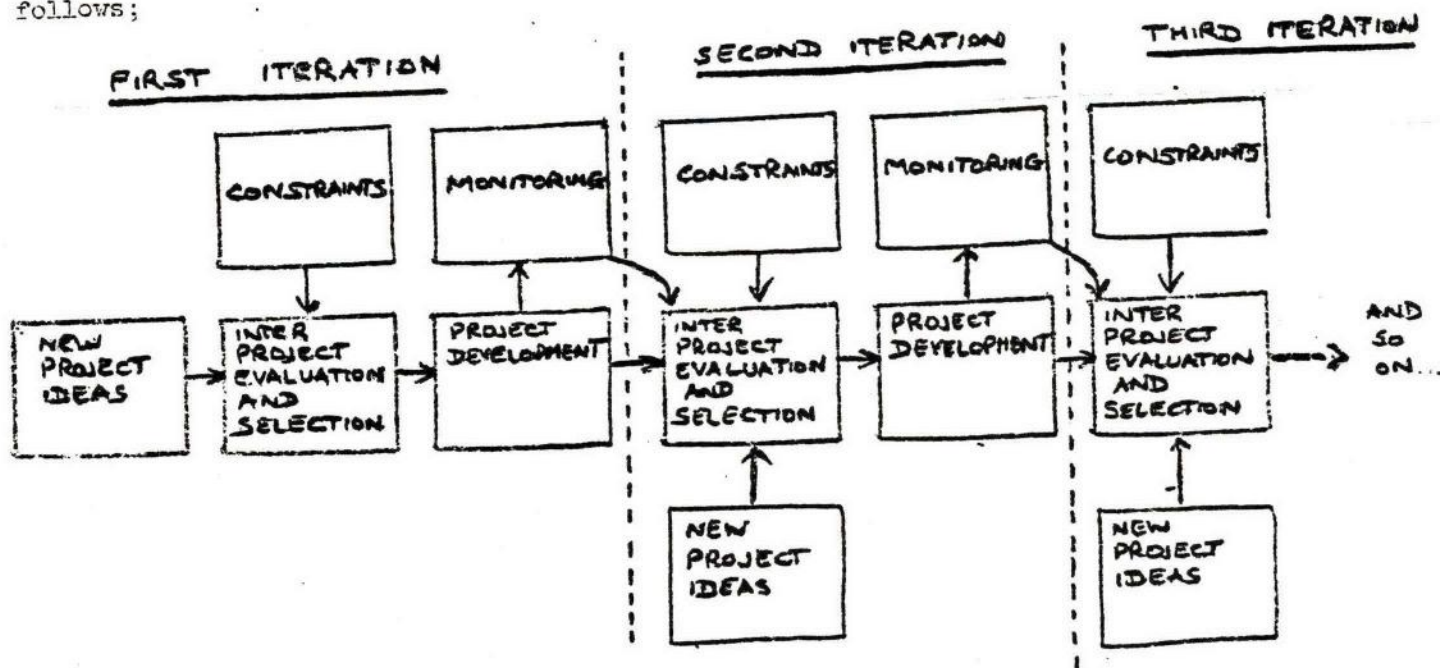
This indicates that generation of project proposals within the institution plays a very significant role in the lending that materializes.

- (b) evaluating and selecting projects: This involves evaluating the new projects proposed for inclusion in the lending program and selecting them on the basis of the evaluation as well as on any known constraints. The process may be informal or formal, intuitive or systematic.
- (c) developing the projects: This involves performing whatever operational work is appropriate (identification, preparation, appraisal and so on).
- (d) control: Monitoring of progress of work on the chosen projects and making any adjustments needed.

7. These steps may be represented as follows:



8. In practice in the Bank, because of the length and uncertainty of the development phase of our projects, the selection process is an iterative one as follows;



Nevertheless the basic steps remain the same, however many times they are repeated.

9. The significance of the different elements depends to a large extent on the planning period involved:

- (a) first and second year: In this period, the main emphasis is on developing projects which have effectively been chosen and reconciling them with the constraints in terms of IBRD/IDA allocations. Thus a regional study has shown that the operations program for the current and second year contained 88% of the projects which actually materialized in the period. Of the 12% which were not in the operations program, half were either reformulations of projects which had been dropped, supplementary



loans or engineering credits and the other half were DFC projects. In effect, the issue of choosing new projects does not arise in a significant way in the current and second fiscal year (unless the region has failed to reconcile its lending program with its processing resources). The lending program has a momentum of its own and there is little flexibility at this late state for choosing new projects. The issue is: given the projects that we have in the \_\_\_\_\_ program for the current and second year, what can we make of them? How can we develop the projects that we have in the lending program for the current and second year so that they contribute to our country development objectives to the maximum possible extent?

(b) third and fourth year:

An OED study of project preparation (SecM76-100) shows that the median time between Bank conception and Board presentation is about 3 years ("Bank conception" being defined as the date when the Bank puts on record that the project was being considered for finance and began to follow it up in a serious and continual way). This conclusion was confirmed by interviews with projects staff who indicated that the "choice point" for deciding whether to make a serious effort to process a project is generally <sup>seem to be</sup> in the third or fourth year ahead. Thus the principal country assistance issue for decision in the third and fourth year involves relating the selection of projects for serious processing to the country development objectives. While in this period it may sometimes be too late for wholly new initiatives, there may in some cases still be time to process a new project pro-

posal which relates better to the country development objectives than any of the projects currently in the existing lending program (many of which may have entered the lending program when still unidentified and of unknown content). The Bank, like any forward-looking organization, is producing more ideas for projects than it can possibly process. It is thus normal that there should be a need to choose between projects. In the case of the Bank, the time for decision is in general the third and fourth year ahead.

(c) fifth and sixth year:

It is essential for a healthy institution to have a steady flow of new project ideas, and this should be the main emphasis of planning for the fifth and sixth year. Thus in the current and second year, the accent is on developing a given set of projects in accordance with a given set of constraints. In the third and fourth year, the main task is the <sup>evaluation and</sup> selection of projects for serious processing from a wider range of alternatives. In the fifth and sixth year, the focus should be on generating the project alternatives from which the succeeding years' program will be chosen. At this stage, originality and creativity in devising better ways to meet the country development objectives are more important than the attempt to forecast the lending result or reconcile the forecast with possible constraints.

10. It is implicit in the preceding paragraph that the dollar level of IBRD/IDA commitments is only of much significance in the first, second and possibly third years.



Thus a recent DPS study has shown that management decisions on the fourth, fifth and sixth year vary by as much as 100% in real terms from what actually materializes. An organization should only plan as far ahead as can be done with some reasonable degree of accuracy and it appears that the ability to plan dollar commitments for countries beyond the third year does not meet this criterion. The decision-making needs to be concentrated on the first three years in such a way that the largely hypothetical issues related to the level of lending in the outer years do not distract attention from the real issues in the first two or three years.

11. To summarize the argument of this part, the main focus of the decision-making in relation to country assistance planning should be on:

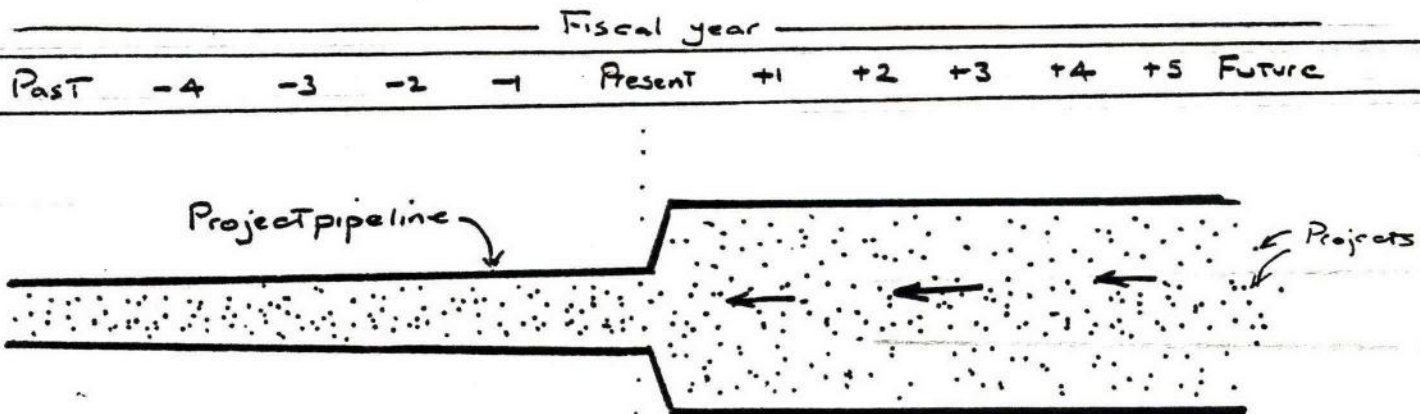
- (a) development of projects in the first and second year;
- (b) evaluation and selection of projects in the third and fourth year;
- (c) generation of new project proposals in the fifth and sixth year;
- (d) level of dollar commitments of IBRD/IDA resources in the first, second and third year.

Some reservations need to be made about this list. Clearly there are other important planning issues (such as administrative budget issues) which arise in contexts other than a country assistance context for the reasons given above in para 2, but must at some point be integrated with the country assistance decisions. Clearly the demarcation between periods is not sharp and clear cut: the distinction is one of emphasis. Nevertheless the establishment of a broad consensus between staff and management as to the significance of different time periods in the Five Year Lending Program could greatly clarify the operations of the programming system.

Shape of project pipeline

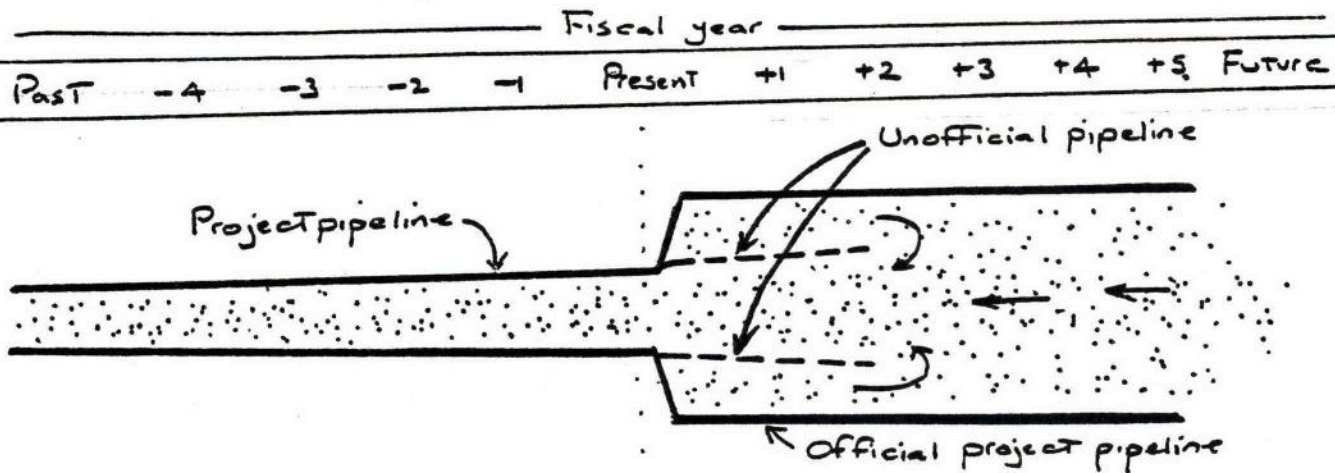
12. Because of the long lead time for project identification, preparation, appraisal and negotiation prior to Board presentation, the projects on which work is being performed are frequently referred to as the project pipeline. While this is in some respects a helpful analogy, it is also a dangerous one as it tends to convey a false impression of the nature of project work, namely an image of uniformity regularity and certainty which is inappropriate. It also tends to imply that the programming of lending is essentially a problem of production management when in fact it is, except for the first two years, more a problem of new product management. These points may be illustrated by pursuing the analogy of the pipeline and considering its shape.

13. It is common ground that, given the uncertainty of project work, it is necessary to be working on more projects for a given fiscal year than the target result for that year. Prior to the reorganization and for a year or two after it, the shape of the pipeline was something like this.

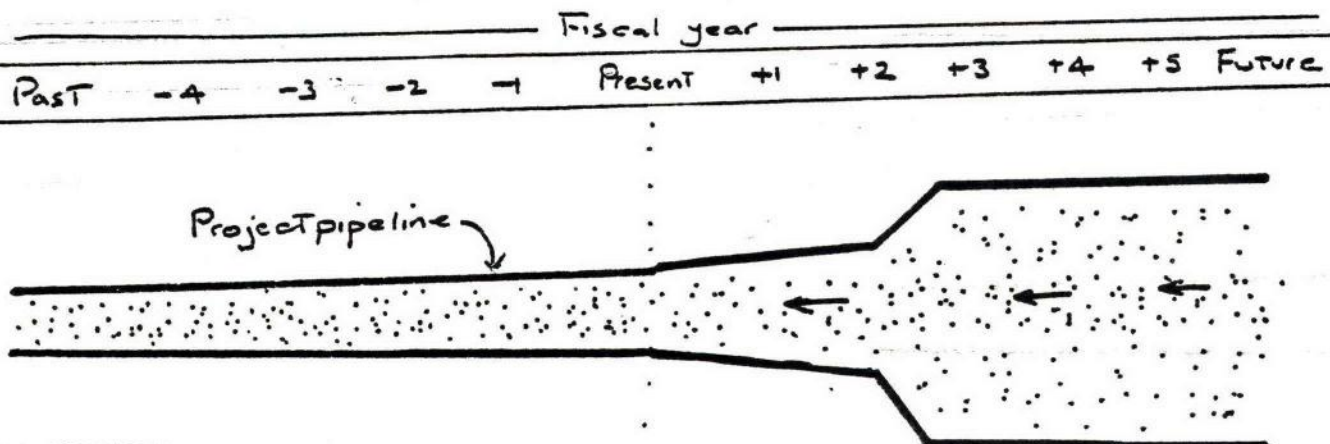




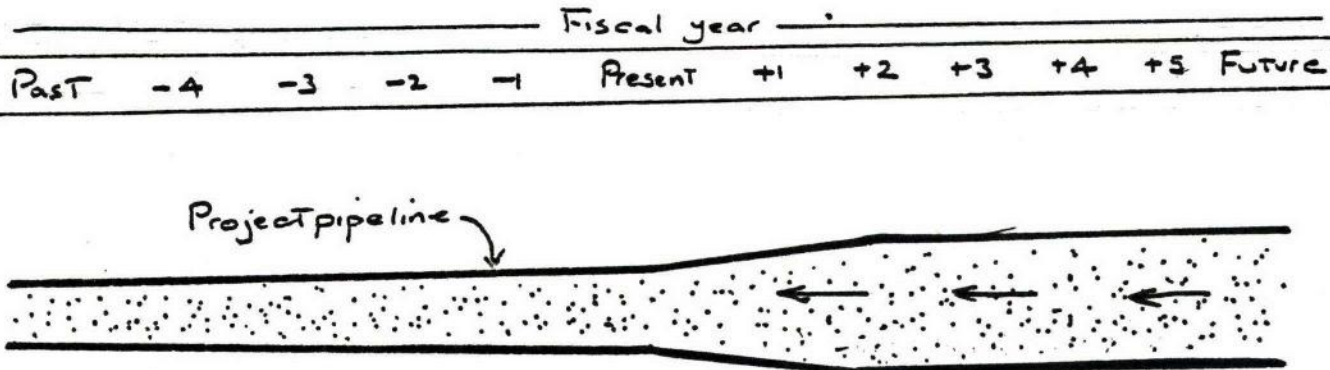
14. However because the projects departments could not work on such a large number of projects in the near term, they only worked seriously on part of the official pipeline of projects.



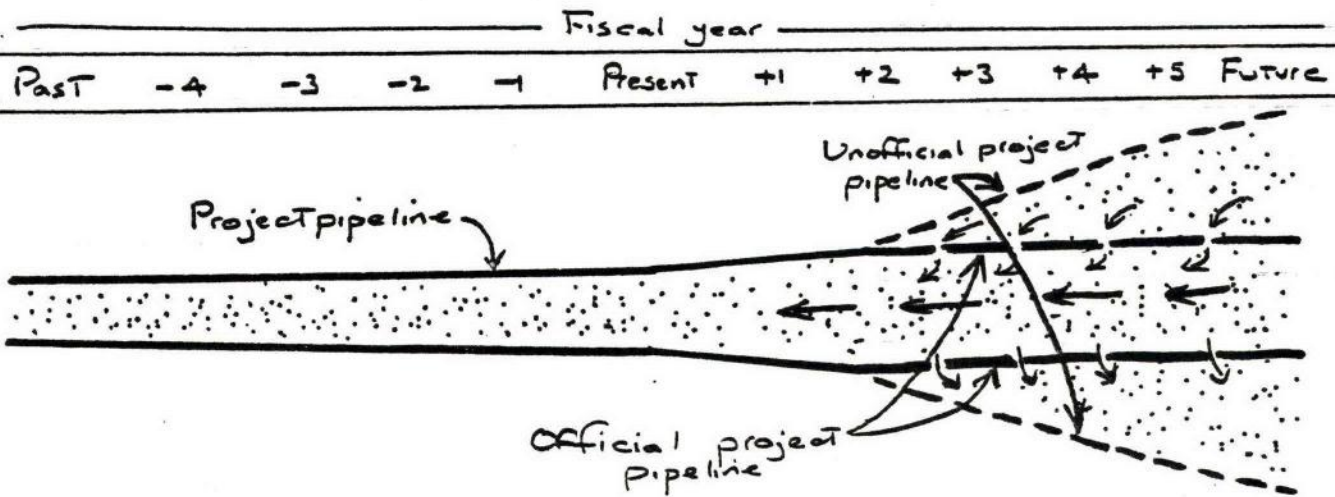
15. By end 1975 all of the regions had brought their official lending programs in years one and two in conformity with the informal pipeline really being worked on by the projects department.



16. However in February 1976 the regions were instructed to present essentially level lending programs for all years, implying that the desirable shape of the pipeline was as follows:

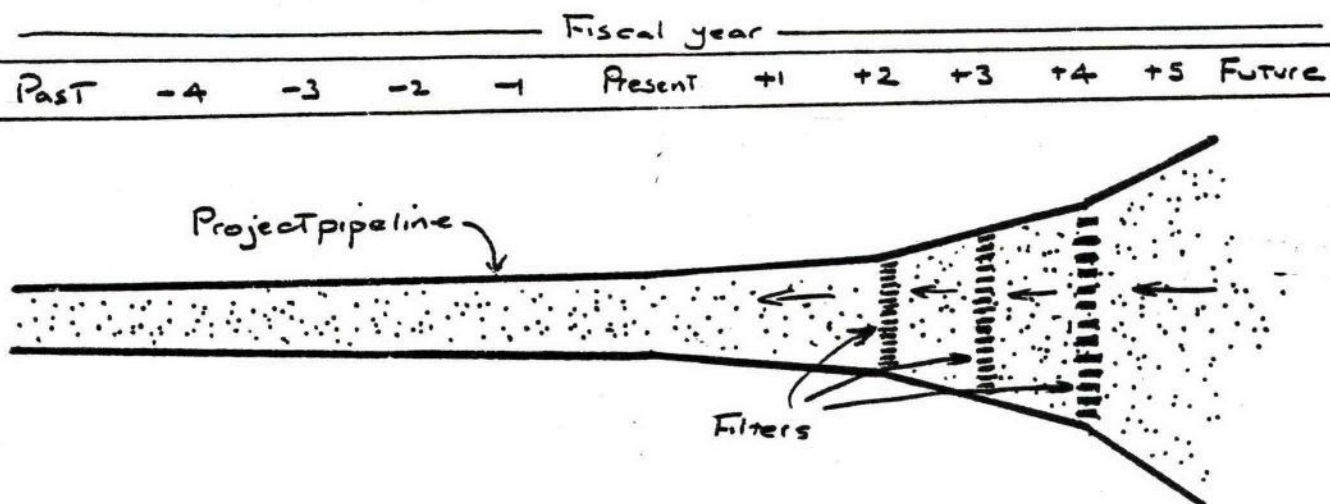


17. This involved excluding from the official lending program a large number of project proposals which may well be needed when the limited number of projects officially in the pipeline started to suffer the normal rate of slippage and droppage. The effect was to have a larger informal pipeline enclosing the official lending pipeline.





18. The conclusion from this experience should be that unless the official lending program reflects the nature of the work, informal mechanisms will be developed outside the official system to cope with the practical decisions that have to be made. One object in designing should be to have the official lending program coincide with the actual decision-making that is going on in the institution. To achieve this, it is suggested that the shape of the pipeline should be:



#### Object of the planning system

19. The object of the overall planning system is to optimize the achievement of the Bank's lending objectives. An essential element in the overall arrangements is the existence of individual project review processes which ensure the economic financial and technical viability of each Bank project. The overall planning

system endeavors to protect the Bank from five main risks of sub-optimization against which the individual project review processes are not an adequate protection:

- (a) under-achievement: the requirement of developing countries for capital and technical assistance from the Bank Group greatly exceeds the amount that we can provide. It is important to avoid committing less than is, in some sense, available, or providing less technical assistance than is, in some sense, possible:
- (b) diffusion of effort: because the development needs of the borrowing countries vastly exceed the capacity of the Bank to meet them, it would be easy for the Bank's staff to diffuse their efforts over a wide spectrum of <sup>individual</sup> activities, so as to achieve less than they can achieve, if there are agreed priorities between objectives and agreed plans to carry them out.
- (c) bureaucracy: there is a risk that the Bank's activities may be determined, not by the needs of the developing countries, but by the internal administrative structures and preferences of the Bank. There is a risk, for example, that a power division may continue to lobby for the inclusion of power projects in a country at a time when power projects no longer represent the optimal use of the Bank's resources. There is also a risk that original and innovative ideas for new projects will be rejected precisely because they are original and innovative. There is a need to avoid excessive organizational conservatism in the generation, selection and development of project proposals.



- (d) external influence: the Bank's lending operations are cooperative enterprises with the borrowing country and clearly the borrower's plans and objectives are very important. Yet from time to time, the Bank is urged by a borrowing country to lend for a project which represents a sub-optimal use of the Bank's resources. Although the appraisal process can eliminate projects which are not economically, ~~and~~ financially and technically viable, it cannot and does not deal effectively with priorities between viable projects.
- (e) misallocation: because the Bank's resources are less than the development needs, it is important that the resources be allocated to borrowers in some defensible manner, e.g. based on equity, credit-worthiness, absorptive capacity, performance and so on.

## OFFICE MEMORANDUM

TO: Files

DATE: September 21, 1976

FROM: Alastair J. Stone, Chief, Operations Review and Support Unit, Urban Projects

SUBJECT: Minute on Meeting of CPS Project Directors to Discuss Mr. Jaycox's  
Memo of September 14

1. A meeting was held in Mr. Baum's office at 2:15 on September 20 to discuss Jaycox's memo of September 14, titled Programming Urban Poverty. In attendance at the meeting were Messrs. Baum, van der Tak, Jaycox, Rovani, Ballantine, Tolbert, Christoffersen, Davis, Zymelman, Messenger and Stone.
2. The meeting was opened by statements from Baum and Jaycox regarding the need for an effort in each of the sectoral departments in CPS to act swiftly to internalize the concepts contained in the memorandum under discussion. Requests were made for high priority efforts to provide: - a clear definition of the poverty problem in each sector; a statement of a program target for that sector in terms of the amount of the problem that the Bank should be willing to tackle; and importantly, for the Regional projects departments a description of the features of a poverty project in each sector, together with identification of actual "prototype" projects which meet these criteria. These were needed in the immediate future; eventually we would also need guidelines for sector work and for project design and monitoring. The directors were each asked to respond to the memorandum with a timetable for the production of the above mentioned items.
3. After a wide ranging discussion it was agreed that, collectively and individually, the CPS departments should take the initiative in developing the urban poverty component of the lending program. It was further agreed that more time was needed to define each department's response and that a second meeting to discuss these responses be held on Monday, September 27. The time and place of this second meeting will be announced by Mr. Jaycox.

AJStone:dd

cc: Messrs. Baum, van der Tak (CPS)  
Jaycox, Dunkerley, Churchill (Urban)  
Rovani (Energy, Water & Telecommunications)  
Ballantine, Zymelman (Education)  
Tolbert (Tourism)  
Yudelman, Christoffersen, Davis (Agric. & Rural)  
Kanagaratnam, Messenger (Population)  
Fuchs (Industrial)



## OFFICE MEMORANDUM

SEP 17 REC'D

TO: David Gordon

DATE: Sept. 16, 1976

FROM: Gary Hyde *GH*SUBJECT: Urban Poverty Program Implementation

1. On September 14 we met briefly with Messrs. Stone, Beier, and Lethbridge of the Urban Operations Review and Support Unit (UORSU) to discuss Mr. Stone's memo of September 9 to E. V. K. Jaycox (attached). This note summarizes selected aspects of that memo and our discussion thereof.
2. The memo deals with four main topics: (a) definition of the Urban Poverty Program (UPP) target population, (b) definition of Bank UPP lending, (c) specification of regional (both country and sector) UPP lending targets, and (d) creation of an information system to be maintained by UORSU.
3. The definition of the UPP target population has been refined a bit, and now refers to all urban dwellers living in absolute poverty and those with incomes below one-third the national average per capita income -- after inflation of that national average by the ratio of urban living costs to average national living costs.
4. To determine how much Bank lending is UPP lending, one must first find out how much is urban-related (at present it is estimated that about 30 percent is urban-related). It is then necessary to add up all lending, in value terms, via projects and components of projects, which promises direct benefits to the target population. If, for example, \$20 million of a \$100 million urban water supply loan is earmarked for distribution facilities to the poor, one would say that 1/5 of the operation involves UPP lending (even though it might be noted that well over 1/5 of the anticipated socioeconomic benefits of the project would arise from the \$20 million component). Two tests are relevant in designing UPP operations: affordability (the poor must be able and willing to pay for the generated good or service) and replicability (the operation must be sustainable over time and subject to large-scale multiplication without a need for massive subsidization).
5. Para. 13 of the memo presents a method for determining the proportion of DFC/Industry/Tourism lending which may be called UPP lending, recognizing that the impact of such lending is more difficult to trace than in the case of sites and services, slum upgrading, etc. The operational test of affordability here is the capital cost per job created, relative to the country's total Gross Domestic Investment and labor force expansion. A "job" is defined as 15 man-years of employment opportunity (i.e., 30 work places each of 5 years duration would count as 10 "jobs"). Capital cost is defined as the sum of all expected fixed, working, and replacement capital outlays over the life of a project, discounted to a net present value (NPV). To obtain some sort of country benchmark as a basis of reference, the memo recommends that GDI (presumably for the most recent available year) be divided by the current absolute growth increment in the labor force plus 1/15 of the employed labor force (to allow for annual replenishment of the capital stock, on the assumption of a 15-year average life). If the "cost of capital" per "job" is less than twice this adjusted-GDI-per-worker figure the project would qualify as UPP lending.

6. Mr. Banerji and I observed that the proposed method seemed to require four rather arbitrary assumptions concerning (a) the 15 man-year definition of a "job," (b) the rate of discount to be used in the capital cost NPV calculation, (c) the 1/15 capital consumption rate, and (d) the multiplier of two used to determine our UPP threshold. You went further by noting that even if the method could be shown to be feasible for DFC operations, we might still be very hard-pressed to apply it to truly small-scale ventures (where on-lending would probably involve a great deal of on-the-spot judgment about the borrower and very little quantified information about his "project"). Mr. Stone suggested that a short seminar might be held in the near future, in order to permit fuller discussion of the proposed method and its underlying rationale.

7. We did not go into UORSU's information system proposals. We did query some of the FY1976-80 lending figures shown in Annex 2 of the memo, including the assumption that only 3/4 of proposed DFC lending would be urban-related. It was stated that the figures were to be checked and updated before sending the report to Mr. McNamara toward the end of this month.

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cc: Messrs. ✓ Stone, Beier, and Lethbridge  
DFCD Staff  
DFC Division Chiefs

GLH



Votava - 10  
Verga - 12  
E MENA - 5  
Sandberg - 2  
Kajagopolan - 2  
Kavalski - 4  
Little - 2  
Loos - 4  
Pouhjaer - ~~4~~ 7  
Halblatzel - 1  
Kirmani - 1  
E. Stern - 1  
Chernick - 1  
Anramowic - 1

deVries - 1  
G. Brown - 1  
Gillette - 1  
O'Brien - 1 (EA)  
Pouhjaer - 6  
A. Lem - 1  
Rowan - 1 (DFC)  
R Costa - 1  
Hag - 1  
Sogeo - 1





## OFFICE MEMORANDUM

TO: Mr. Edward V.K. Jaycox, Urban Poverty Task Force      DATE: September 14, 1976  
FROM: Alastair J. Stone, *Al Stone* Chief, Operations Review and Support Unit, Urban Projects  
SUBJECT: Urban Poverty Program Implementation

Introduction

1.        The implementation of the strategy outlined in the Interim Report of the Task Group has been pursued at both the country program and sector levels of activity in the Bank. Progress achieved in each sector and in each region has varied. Both country programs and sectoral departments have had the opportunity to develop their own responses to the initiatives of the Urban Poverty Program. However, these efforts do not constitute to my mind an integrated program and it is to achieve such a program that the following detailed approach to programming the Bank's Urban Poverty Lending has been developed.
2.        First, an operationally useful definition of the urban poverty target population is presented. This is followed by two sets of criteria to define what portion of Bank lending constitutes urban poverty lending, one for projects which create low capital cost employment, and another for those which produce goods and services to meet the basic needs of the poor. Next, we set out a method for determining that portion of the regional lending programs which should be allocated to directly benefit the target group. This is followed by a statement as to how sector specific targets for each sector of Bank urban lending -- e.g., basic urbanization, water supply, labor-intensive enterprise, etc. should be developed which reflect in some measure the extent of the worldwide urban poverty problem in that sector as well as the Bank's ability to contribute to its solution. The first attempts of the regions to identify and develop Regional Urban Poverty Programs are then set out. These were developed without firm sectoral or overall lending targets or definitions and therefore are very tentative though still indicative of the potential for reorienting our urban lending. Finally, we describe the information system that this Unit will operate to monitor the whole Urban Poverty Program.
3.        It is proposed that the substance of this memo, together with the results of the exercise now being completed to define the urban poverty target group, plus the program implications, thereof, and the status of relevant research and policy papers, be combined and presented in a report to Mr. McNamara, in the near future.

The Target Group

4.        The target population for urban poverty programs and projects is now defined as all urban dwellers in absolute poverty, or with incomes below one-third of the average national per capita income (after average per capita income has been inflated by the ratio of urban living costs to average living costs). This definition is not quite the same as that used in the Interim



Report of the Urban Poverty Task Group last October, but in changing it this way we have ensured consistency between the poverty definitions used in both the urban and rural poverty programs.<sup>1/</sup>

5. Unfortunately, the work done by the regional country economists has yielded only 14 countries with absolute poverty estimates. These estimates are derived from costing a basic diet in urban (and rural) areas and after adding the cost of non-food basic needs, deriving income thresholds in urban (and rural) areas below which nutritional intake would likely be less than minimum levels. Application of this income threshold to income distribution data yields the absolutely poor in numbers of people. The data available for a large number of countries is insufficient to generate estimates of absolute poverty which are much better than those generated by the Urban Poverty Task Group last Fall. In addition, the definition of the target group just outlined requires estimates of urban dwellers in relative as well as absolute poverty. Data for this exercise is also imprecise and will remain so until country economic work refine these measurements over time.

6. Because we need immediate working estimates for each country, and rather than spend additional time refining these estimates at a detailed level now, the target population for each country is in the process of being calculated by the Unit as follows: (i) where available, the absolute poverty work sheet received from country economists which cost out basic diets and non-food requirements in urban and rural areas will be used to determine an urban income cost of living inflator, in other cases other cost of living data will be applied;<sup>2/</sup> (ii) this inflator will be applied to inflate one-third the average per capita income to give the threshold income of the target group in urban areas; and (iii) the number of people in this target group will be determined by setting the threshold income against the income distribution data available to us. The results of these exercises will be distributed in a memorandum to be issued in two weeks' time. These estimates although rough and ready will form the basis of all urban poverty programming and project definition unless and until we can get refined estimates from country economists. All such refined estimates are to be welcomed and should in any case become a standard part of country economic work.

#### Definition of Urban Poverty Lending

7. In contrast to rural poverty projects, which are predominantly in the agriculture sector, urban poverty projects can occur in almost all sectors of Bank lending. Furthermore, in rural poverty projects benefits will normally accrue from increased production and hence direct income generation: this will often not be the case in urban poverty projects which provide or extend urban services. An increased emphasis on urban poverty

<sup>1/</sup> To be entirely consistent the rural definition should deflate threshold income by the ratio of rural living costs to the average living costs. However, the difference would be marginal and no change is proposed to existing practice in rural development.

<sup>2/</sup> Where there is no country specific data, an inflator for each region between 1.1 and 1.7 will be used in agreement with the respective senior economist.



lending will require determined efforts to re-orientate much of our existing lending practice and project types which are located in urban areas and spread among almost all sectors. (This type of lending accounts for about 30% of the existing total lending for the Bank.) For these reasons we have developed the following criteria to use in defining the portion of the lending program which is Urban Poverty Lending.

8. Urban poverty lending is lending which directly benefits the target group. Therefore all lending (i.e., projects or parts of projects) which generates definable benefits flowing to the target group should be counted as urban poverty lending. Thus, if 40% of a project yields direct benefits to the poor, then 40% of the loan amount would be counted as urban poverty lending.<sup>1/</sup>

9. The main objective is to increase the share of Bank investment spent directly on increased production by and supply of basic needs to the urban poverty group. However, in doing this we do not want to replace or modify existing first order criteria for Bank financing of projects which include economic and financial efficiency, national priorities, institutional viability and technical soundness. The introduction of an income determined target beneficiary group does, however, give special importance to tests of affordability and replicability of investments which are of direct benefit to the poor. The main concern is to assure the level of spending on urban poverty solutions for the benefit of any individual or group is feasible within the resources available to the country or city. In determining the amount that can be spent per person or per unit of service therefore, some notion of the overall needs and available resources must be developed. For example, if a project provides services to 5% of the unserved urban poor, the question arises whether it could be done 20 times within the resource constraints of the city. This affordability/replicability criterion is important to stress, since many of our borrowers view urban poverty programs as highly subsidized welfare programs. The Bank's urban poverty program does not include "show case" projects which are designed to standards the target group cannot afford and which are not financially or institutionally replicable on a scale commensurate with the problem.

10. Put simply, the test of affordability is that the costs of the service or benefit provided in a project are less than or equal to what the poor are able and willing to pay for that service or benefit. Such a project would normally be replicable. Where institutional capacity exists to charge prices that are below average costs for services that would not otherwise be affordable to the poor, e.g., through differential loading of overhead costs

<sup>1/</sup> This is not quite the same as saying that the urban poverty element of total lending is the same as the share of benefits which accrue to the target group on account of that lending; for example, a water supply project for \$100 m may include a \$20 m component which finances distribution of water to the poor and which accounts for 50% of the total benefits of the project, in these circumstances only \$20 m would be counted as poverty lending.



according to ability to pay, the prices paid by the poor can be used instead of the average costs to test affordability, provided that these prices are sustainable in the long run. Prices that include subsidies replicable on a scale which would allow a program to serve all the poor would pass the test of affordability, but to justify this subsidy it would have to be shown that the subsidy is economically justified and is not occasioned by overdesign.

11. In the case of sites and services, slum upgrading, water distribution, schools, or other location specific projects with identifiable direct beneficiaries and benefits, there should normally be little problem in recognizing the urban poverty element of lending as has just been described. For systems such as transportation, the problem may be more difficult, but in these cases, to the extent that services are produced at costs and prices the target population can afford and there are no supply conditions which bar access to the poor, the projects or parts of projects thus characterized, may be classified as urban poverty projects.

12. The emphasis that has been given to affordability and replicability also means that projects that result in the production of basic goods and services for the target group at a cost below prevailing costs would also qualify as urban poverty lending. Site and services, water, urban transportation are special cases of this class which were discussed above. But in principle, urban poverty projects should be developed in many industries, e.g. in food industries, clothing or the provision of rental shelter. The test in each case would be the production of basic products demanded by the poor and at a price affordable by the poor.

13. For DFC, industry and tourism lending, and for the employment and income generating impacts of all other sectors, the main contribution to urban poverty programs is expected to be in terms of the employment they create. Here we propose a slightly different criterion. For employment, the relevant test of affordability becomes the average capital cost per direct job created related to the overall means of the country concerned, namely its savings level. This is a difficult and problematic concept to employ. However, we have devised a formula, which in the absence of carefully worked out country specific alternatives, we propose to use as a test for the labor intensity of employment creating projects, taking account of the availability of capital and labor in the country concerned. Many alternative rules of varying complexity were developed. Among the most appealing were the creation of jobs at levels of productivity which implied relatively low capitalization, or linked investment per job to net growth in capital stock and a target quantity of new jobs.

14. The rule suggested therefore should be thought of as an arbitrary operational compromise which nonetheless highlights the major attributes of the solution to the employment problem. The rule is as follows: - First,



we have defined a "job" as 15 man-years of employment.<sup>1/</sup> Next, by dividing the number of jobs thus determined into the total capital costs of the project (capital costs defined to include all working capital and replacement required over the life of the project in present value terms) we get a capital cost per job. The capital cost per job derived in this way should then be compared with the figure which emerges by dividing gross domestic investment by the current growth in the labor force plus 1/15 of the labor force currently employed.<sup>2/</sup> For all projects where the capital cost per job is less than twice this figure we propose they qualify as urban poverty lending. The doubling of the average figure is an arbitrary factoring to account for possible indirect employment effects at substantially lower capital costs and to place the threshold more clearly within the operationally feasible range of Bank intervention. To illustrate, we estimate roughly<sup>3/</sup> that the capital cost per job which would qualify the project as a poverty project is as shown below in some representative countries.

Kenya	US\$1,700
Sierra Leone	1,800
Turkey	6,700
Morocco	6,000
Brazil	9,100
Jamaica	15,600
Colombia	4,800
Malaysia	6,200
Indonesia	1,700
India	1,000

15. This formula has the advantages of simplicity and an obvious relation to supply of investment resources and the size of the employment problem; it can also quite easily be derived from project information and from macro-economic data already routinely collected. Further, as may be seen above, the results of applying this rule appear to be of a reasonable order of magnitude, varying from investments per job which are easily achieved without much change from previous practice in relatively rich countries to very difficult targets indeed in poor countries.

16. In a few cases a project which does not meet these direct tests of poverty relief may qualify where it achieves policy or institutional changes which correct or substantially mitigate economic distortions with respect to opportunities for production and consumption by the urban poor. Such cases should be judged on their individual merits, but it would have to be shown that the correction is economy-wide (or city-wide) and substantial.

<sup>1/</sup> Thus, 30 work places lasting 5 years would be counted as 10 jobs and 10 work places lasting 30 years as 20 jobs.

<sup>2/</sup> The "1/15 of the labor force currently employed," takes account of the need to replace worn-out capital assuming that on average the capital employed has a 15-year life. Alternatives can be used where the case can be made for them. Also where "labor force currently employed" is not available or cannot be estimated, "labor force" can be used.

<sup>3/</sup> Based on latest country economic data sheets with data ranging from 1970 to 1974 which has not been adjusted.



### Regional Lending Targets

17. Estimates obtained from the target population definition and data, as outlined at the beginning of this memo, will be used to determine initial targets for the Bank's Urban Poverty Program. It is apparent, from the preceding description of an urban poverty project, that such lending will come from diverse sectors of Bank activity and need not always determine the character of the entire loan. For this reason and also because of rather large variations in loan amounts between sectors, all targets for the Urban Poverty Program will be set in dollar amounts: as a share of urban lending, rather than in numbers of projects. The proportion of such lending in any regional program that should be poverty lending will be determined by the proportion of the urban poverty target group to total urban population. This factor will be applied to all lending which is programmed to take place in urban areas or to be urban-related, and when summed for all countries will generate a regional urban poverty lending target.

18. Note that this targeting does not affect the share of lending in urban as opposed to rural areas. Urban poverty programming per se will apply to only that portion of lending classified as urban related, i.e., all lending which is located in urban areas or has a definable and direct effect on consumption, production or access to land and services in urban areas.

### Sector Targets and Project Design Criteria

19. In addition to targets for the proportion of urban lending that should directly benefit the target group, we want to have sector-specific targets for each of the key sectors that will be involved in the urban poverty program: labor-intensive enterprise, basic urbanization, low cost water supply and sanitation, preventive health care and nutrition. These targets will be set in terms of the numbers of target population served or employed, or in terms of the proportion of lending for urban located projects (say 50%) which meet the poverty lending criteria. The sector targets are to be set taking account of the extent of the poverty problem that is susceptible to improvement by investments in each particular sector (e.g., the number of people living in and adding to unserviced squatter areas in IDCs) and the capacity of the Bank to do anything about it in particular sectors and regions.

20. There is a large role to be played by the CPS sector and operating departments in quantifying the extent of the poverty problem and working with their regional counterparts to set operational targets. In addition, the CPS sector departments should integrate the concerns for urban poverty impacts into sectoral project design criteria, sector work guidelines, and guidelines for monitoring "new-style" project performance.

21. Progress in developing sector-specific targets and project and sector guidelines is not as well advanced as we had hoped it would be by this time. The present status of work in the key sectors is outlined in the matrix in Attachment 1. This matrix shows that relatively little overt and



clear definition of urban poverty programs from a sectoral point of view has yet emerged and reflects the difficulty which has been experienced in defining urban poverty program claims on total sectoral resources against the background of the very fluid nature of the overall lending program as it developed for the recent budget. Also part of the problem has been the need for initiative to be taken by several CPS departments with competing priorities and for the cooperation of many parts of the decentralized management structure. It may be that in some sectors, greater progress has been made on a number of points than we know about and has been shown in the matrix. In any case we suggest an early meeting of the key sector department heads with you and Mr. Baum to move this process forward.

#### Regional Urban Poverty Programs

22. Definitive Regional Urban Poverty Programs will eventually emerge from the CPP process and the attempt to meet urban poverty lending targets and sectoral targets. The regions have been putting together first attempts at urban poverty programs. These have been received from all regions except IAC and South Asia. These first attempts are very much just that and were developed during the rather frenetic period when the FY77 budget and the overall five-year lending program were undergoing constant change. Also the definition of an urban poverty project, the quantitative lending targets and the sector targets not being firmed up therefore have not yet impinged on the program. Despite this lack of finality and detail in the programs, we believe that the regions have made a very good first effort (see Attachment 2). Of the 242 urban related projects in the four regions that have reported, 124 of them or 51% have been identified as having urban poverty orientation or components. We have not been able as yet to determine the proportion of these projects in money terms that will benefit the target population but will proceed in consultation with the regions to put the programming on that basis. As a first step we will be sending to each region and sector early next week, the relevant results of the programming and location exercises. They will be asked to apply (with our assistance) the above project criteria and programming rules to each year on the current five-year lending program. Obviously, emphasis will be placed on the current and next fiscal years where detailed project information is available.

#### Urban Poverty Program Information System

23. To assist in the speedy determination and implementation of urban poverty targets at the programming level, to ensure that lending designated as urban poverty lending lives up to expectations, to stimulate urban sector work, and to allow systematic attention to be paid to the locational distribution of the Bank's lending, UORSU will maintain an information system and promulgate appropriate reports on a regular basis.

24. Few new forms and sources of information will be required to carry out this program, and every attempt has been and will continue to be made to limit these incremental information needs and to build on the existing



programming and project information flows in the Bank. There is a general trend in the Bank, which started with the rural development program and has now spread to all sectors via the project brief system to systematize program and project data much earlier in the project cycle than is currently the practice. The urban poverty information system continues this trend and is designed to fit in both with practices already existing in rural development and becoming widespread through the project brief system. Indeed, it has already been proposed that, at least as far as programming is concerned, the information requirements for rural development goals and urban poverty goals be consolidated into one central system.

25. The starting point of the system is the five-year regional lending program which is prepared annually as part of the budget exercise. These programs should show which projects, or how much of particular projects, are urban related and then within that category which of them, or how much of each of them, is designated as urban poverty lending.

26. With these slight amendments incorporated in regional five-year lending programs, it will be a simple matter for all concerned to see whether or not the regional program meets poverty targets and to the extent that it falls short to take steps to meet targets either through a re-design of identified projects or through the designation of unidentified lending for design as poverty lending. Of course, the regional urban poverty program will also have to take account of sectoral targets which will be pushed for by the sectoral division chiefs within each region and their GPS counterparts or by COPDs. The resolution of independently determined regional/country targets and the sectoral targets will take place, as is the case now, during the CPP process.

27. To follow the development of individual urban related projects there will be an addition to the project brief or to project identification reports where a project brief is not employed which gives urban poverty data (see Attachment 3). Any urban related project which has been shown as such in the regional program should have this data completed to the level possible at any point in the project's preparation, and be continuously updated whenever new information on the project is available. The data includes items such as the project's location, its urban poverty element, and the number of people in the target group served.

28. The information system will be the responsibility of this Unit, whose job it will be to collect, collate, update and report on the entire urban poverty program. To allow the information system to be as up to date as possible, and because the major input will be an annual exercise, individual CPPs will be reviewed by the Unit for the information which has just been described for regional programs. Information derived and updated in this way will be analyzed and reported upon by UORSU at least twice a year. UORSU will also draw to the attention of regional management cases where the regional program appears to be wide of the targets, or where projects appear not to be living up to the expectations made of them in the regional program.



September 14, 1976

29. In parallel to the programming and project data collection just described, the Unit will keep track of the location of Bank urban lending. Countries where there are cities with concentration of projects in the five-year lending program will be identified. This locational layout will assist in assessing where urban and other urban-related sector and economic work may be optimized in support of operations, and where coordinated city programs may be called for. Where there are large concentrations of Bank lending the operating divisions of the Urban Projects Department will generate city data sheets (see Attachment 4) to be employed by all concerned in project design and coordination of Bank operations.

AJStone/NLethbridge/GBeier:dd

cc: Messrs. Dunkerley, Churchill, Courtney, Holland, Watson, Kahnert

	<u>URBANIZATION SITES &amp; SERVICES &amp; HOUSING</u>	<u>DFC/INDUSTRY</u>	<u>WATER SUPPLY &amp; SEWERAGE</u>	<u>EDUCATION</u>	<u>HEALTH/NUTRITION</u>
<u>KEY DEFINITION</u> Statement of aspects to urban poverty, which investments each sector can be expected to improve and an estimate of their extent.	WHO access to water estimates used to determine urban pop- ulations without urban services. Growth of this population estimated globally to be 12 million per annum. No refine- ments made.	No quantitative global estimates of urban unemploy- ment and low productivity or expected rates of growth yet. Problem defined as employment generation.	WHO access to water estimates used (see urban) subsequently refined by WHO but not yet accepted by IBRD and therefore still under revision.	Estimates of primary, basic edu- cation and adult literacy training requirements have been prepared for 1975 (23 million children, 11.5 million adults) forecast to 1985 (30 million & 15 million). Figures reflect shortage of capacity, rather than number of uneducated.	World nutrition deficiencies discussed and delineated in IBRD working paper No. 202.
<u>KEY CRITERIA</u> Development of documented guidelines pertinent to the problem as defined)	Not yet formalized. Guidelines for health/nutrition components to urbanization package projects have been issued. Work underway on cost recovery principles.	Substantially completed for DFC projects but still awaiting detailed review of draft issues paper. Employment criteria contained in this memorandum yet to be incorporated.	None specific to urban poverty concerns. Some guidelines prepared by consultant received but not found satisfactory. Revisions are currently awaited.	Draft study prepared by consultant under review. Overall project criteria not yet developed.	Under preparation by consultants. Early draft received and now under revision.
<u>KEY TARGETS</u> Development of Bank targets of cost lending in terms of \$ amounts (number of target groups to benefit)	Target set at 1/3 estimated growth (about 1% annually) of unserved urban populations to be provided with basic services through urbanization package pro- jects. Target should be achieved by 1980. Loan amounts & project costs to be determined.	Defined in draft DFC/employment issues paper	None	None	None
<u>EDITORIAL GUIDELINES</u>	None - except guidelines on urban related work for country economists.	None	None	None	None
<u>MONITORING GUIDELINES</u>	Monitoring and project preparation information guidelines in experi- mental use.	None	None	Education projects monitoring system in existence. Not revised to reflect urban poverty goals.	None
<u>OTHER</u>	Working paper on determination of appropriate standards in low cost shelter and housing projects being printed.	- Research and policy recommendations on small scale industry in Sierra Leone under contract with Michigan State University.	Broad based two year research program prepared and to be sub- mitted to Research committee.	None	

Note: There has been no progress for Transport, Power, Telecommunication, Tourism & Population.



FY76-80 LENDING PROGRAM, BY REGION AND SECTOR

9/08/76

REGION	TOTAL LENDING <sup>1/</sup>		URBAN RELATED LENDING		URBAN POVERTY DESIGNATED PROJECT		UPP/URL		CITIES/TOWNS
	#	\$m	#	\$m	#	\$	#%	%	#
East Africa	134	(1) <sup>2/</sup> 2,307.7	56	797.8	19	313.5	33.9	39.3	71
West Africa	121	(2) 1,672.9	50	610.6	37	425.0	74.0	69.6	74
EMENA	178	5,687.8	86	2,641.0	44	1,215.5	51.2	46.0	45
LAC <sup>3/</sup>	162	(2) 6,468.4	100	3,641.0	-	-	-	-	90
EAP	106	4,707.5	50	1,901.0	24	801.0	48.0	42.1	31
S. Asia <sup>3/</sup>	<u>82</u>	(1) <u>4,117.1</u>	<u>35</u>	<u>1,045.8</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19</u>
<u>WORLD BANK TOTAL</u>	<u>783</u>	(6) <u>24,961.4</u>	<u>377</u>	<u>10,637.3</u>	<u>124</u>	<u>2,755.0</u>	<u>32.9</u>	<u>25.9</u>	<u>330</u>

4 REGIONS ONLY (EA, WA, EMENA & EAP)

Agriculture <sup>4/</sup>	7	102.2	6	24.53	-	-	-	-	-
Telecommunications	18	559.2	9	167.76	-	-	-	-	-
DFCs	110	3,150.6	79	2,299.94	30	702.0	38.0	30.5	-
Education	90	(1) 1,583.3	32	348.33	21	351.0	65.6	100.8	-
Non-Project	15	850.5	0	25.52	-	-	-	-	-
Industry	78	3,316.0	38	1,624.84	17	364.0	44.7	22.4	-
Maintenance Imports	5	620.0	-	-	-	-	-	-	-
Population	16	304.3	6	91.29	2	30.0	33.3	32.9	-
Power	91	4,493.8	41	1,842.46	6	155.5	14.6	8.4	-
Tourism	16	279.0	8	181.35	-	-	-	-	-
Transportation	199	(5) 6,305.4	54	1,324.13	-	-	-	-	-
Urbanization	46	1,155.6	45	1,074.71	23	582.0	51.1	54.2	-
Water Supply	79	2,158.5	59	1,618.88	25	570.5	42.4	35.2	-
Unallocated	4	35.0	-	-	-	-	-	-	-
Technical Assistance	<u>9</u>	<u>48.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>WORLD BANK TOTAL</u>	<u>783</u>	(6) <u>24,961.4</u>	<u>377</u>	<u>10,623.74</u>	<u>124</u>	<u>2,755.0</u>	<u>32.9</u>	<u>25.9</u>	<u>-</u>

<sup>1/</sup> excluding most agriculture sector projects

<sup>2/</sup> numbers in parentheses indicate project supplements: amounts are included in totals

<sup>3/</sup> no project specific RUPP received, therefore no UPPs identified

<sup>4/</sup> agriculture projects identified by the Regions as having urban impact

Note: totals may differ slightly, due to rounding

2.00 CITY DATA : City Name: \_\_\_\_\_ Area: \_\_\_\_\_ Gross population: (19 )

I. LOCAL - ECONOMY & GOVERNMENT

2.01 CITY GOVERNMENT FINANCES (19 )	US\$ (Mln) 19 /	US\$ (Mln) 19 /	Amount Per Capita
A. <u>Revenues</u> (total)			
- Local Gov. Tax			
- Local Gov. non Tax			
- Transfers from City Enterprises			
- Transfers from Provincial Govt.			
- Transfers from National Govt.			
- Other			
B. <u>Expenditures</u> (Total):			
- Administration			
- Service Provision			
- Health, Education, Welfare			
- Transfers to City Enterprises & other Govts.			
- Emergency Funds:			
- Others:			
C. <u>Debt Service</u> :			
D. <u>Surplus/Deficit</u> :			
E. <u>Finance of Deficit</u> :			

2.02 CITY INSTITUTIONS

AGENCY(S)	Water Supply	Sewerage	Roads/Drainage	Electricity	Street Lights	Schools	Health Centers	Community Centers	Recreation Areas	Markets	Small Scale Ind.	Materials Depot	Refuse Collection	Fire Protection	Police Protection	Other	Other
Planning																	
Financing																	
Public Works																	
Operations																	
Maintenance																	
Technical Assistance																	
Other (Specify)																	
Other (Specify)																	

Instructions: List the names of public and private institutions directly responsible for the provision of city services in this box and indicate the type of institution (public or private, national; provincial, city, neighborhood or other level). Code these institutions by numbering them consecutively. Transcribe the codes to the blanks above.



2.03 EMPLOYMENT (19 )

A. Total Labor Force:	No. of persons	Share of City output
B. Average Annual Growth	% p/a	
C. Formal Employment :	% of Labour force	
- Government		
- Industry		
- Commerce		
- Services		

2.04 INCOME DISTRIBUTION (19 )

A. Average Per Capita Income:	US\$ p.a.
B. 1st Quintile:	%
C. 2nd Quintile:	%
D. 3rd Quintile:	%
E. 4th Quintile:	%
F. 5th Quintile:	%
G. Threshold Poverty Income	US\$
H. No. of People below G.	No. of People

2.05 LAND VALUES

A. Residential	% change from (19 )
B. Commercial	% change from (19 )
C. Industrial	% change from (19 )

Instructions: Significant changes in land values indicate % change for most recent period of measurement.

II. NATURAL ENVIRONMENT

2.06 WATER QUALITY

A. Exposed Water Suffering Contamination	_____ % of total
--	------------------

2.07 CLIMATE/NATURAL DISASTERS

A. No. of work days lost through flooding	No.:
B. Population affected by frequent flooding	% of total population
C. Is city prone to earthquake	
D. Other climatic features of importance	

III. PUBLIC & PRIVATE SERVICES

2.08 ACCESS TO PIPED WATER (19 )

A. Individual Connections:	% of total population
B. Communal Supply:	% of total population
C. No direct Supply	% of total population
D. No Supply	% of total population

2.09 HEALTH & NUTRITION

A. Population per physician:	(no.)
B. Population per bed:	(no.)
C. Population per nurse:	(no.)
D. Per Capita Caloric Supply:	cal/day
E. Per Capita Protein Supply:	gms/day
F. Death Rate, 0-4 Yrs. Old:	
G. Incidence of Gastro-Intestinal Diseases, 0-4 Yrs. Old.:	
H. Incidence of Respiratory Diseases, 0-4 Yrs. Old:	
I. Other	

## V. LAND USE/POPULATION

## 2.17 POPULATION (19 )

A. Total:		
B. Rate of Growth:		
C. Crude Birth Rate (per 1,000):		
D. Crude Death Rate (per 1,000):		
E. Av. Family Size		
F. Age/Sex: Age	% Male	% Female
6-5:		
6-14:		
15-64:		
65 & over:		

## 2.18 DENSITY (19 )

A. High Density Range: (+800/ha.)	% of total population	% city area
B. Medium Density Range:	% of total population	% city area
C. Low Density Range (-200/ha.)	% of total population	% city area

## 2.19 LAND USE ( 19 )

A. Residential:	% of total of city Area	% growth
B. Commercial:		
C. Industrial:		
D. Government:		
E. Undeveloped/Open Space:		
F. Transport & circulation:		
G. Other:		

## 2.20 LAND TENURE (19 )

A. Fee Simple:	% of total of city Area
B. Leasehold:	
C. Other:	
D. Public land:	
E. Semi-Public land:	
F. Private land:	
G. Semi Private land:	
H. Other:	
I. Rate of growth of settlement area %:	

## VI. OTHER DATA



## OFFICE MEMORANDUM

TO: Mr. M. Yudelman

FROM: Ted J. Davis

SUBJECT: Comments on "Urban Poverty Program Implementation", an UORSU paper dated September 9

DATE: September 14, 1976

The above paper, which you gave me this morning, is a review of UORSU's proposals and actions for internal monitoring of the urban poverty impact of the Bank's lending program. This paper has significant implications for RORSU's activities. The major points in UORSU's paper are as follows:

1. The major focus of the paper is on regional and sectoral targeting of Bank's lending in the five year lending program, with respect to the urban poor.

*No*

Comment: The target for rural poverty impact of the Bank's lending program is an aggregate (50%) of its total agricultural and rural development lending over five years. No regional or sectoral-specific targets have (so far) been developed. Only indirectly has RORSU's monitoring on the basis of this aggregate target had an impact on some CPP development. A way needs to be designed to focus CPP's on rural and urban poverty target groups. Whether regional and sector specific targets can contribute to this, needs, however, to be carefully analyzed.

2. UORSU proposes a different definition of the poverty income levels. They accept the definition of absolute poverty, but suggest that the relative poverty level be based on one-third per capita GNP, inflated by an urban price factor.

Comment: RORSU uses for its relative poverty definition one-third of per capita TPI (total personal income of the country).

3. UORSU's analysis of projects focuses on the percentage of lending which will benefit the target group.

*✓*

Comment: The percentage of lending, which will benefit a target group, is an input indicator. RORSU believes that it is better to use an output indicator. RORSU defines rural development projects among all agricultural and rural development projects, on the basis of the majority of benefits directly accruing to the rural poverty target group. Obviously, when only 30% to 40% of the benefits accrue to the target group, this simple methodology raises some problems. Although some refinement might thus be required, an output indicator should be preferred.

4. UORSU proposes a PIB system for analyzing all projects in the five year lending program. (To facilitate this, they have asked P & B to assign project number to all projects in the lending program, not just to those with timetables.)

*Given Prior to Bank Mtg.*

*copy - Task 1  
copy - Annual  
Per. Agreed*

Comment: RORSU should expand its monitoring activities beyond agricultural projects. However, its attempt to monitor all projects in the five year lending program failed because regional project staff could not provide information on specific projects beyond the second year in the program.

5. There are substantial differences in the definition of "benefits" of a project. UORSU plans to use different criteria for different types of projects such as: (a) employment (cost per job); (b) services received by the target group, i.e., education, health, water supply; and (c) consumption (lowering prices of consumed items).

Comment: RORSU defines benefits as those which raise the incomes of the rural poor. The provision of social services is sometimes separately quantified.